

CULLEN FROST BANKERS INC
Form 424B3
July 28, 2005
Table of Contents

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-126429

July 27, 2005

Dear Fellow Shareholders:

You are cordially invited to attend a special meeting of shareholders of Horizon Capital Bank to be held at Horizon, 3707 Richmond Avenue, Houston, Texas at 4:00 p.m. local time on August 30, 2005. At the special meeting, shareholders will be asked to take certain action in connection with an Agreement and Plan of Merger, as amended, between Horizon and Cullen/Frost Bankers, Inc., as described below.

Please read this letter carefully as it contains important information regarding action we need you to take in connection with the special meeting. In addition, if you are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, then you are also cordially invited to attend a voting meeting immediately prior to the special meeting to direct the voting representative on how to vote your shares of Horizon common stock subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement at the special meeting as more fully described below.

At the special meeting, shareholders will be asked to take certain action in connection with an Agreement and Plan of Merger between Horizon and Cullen/Frost Bankers, Inc., as described below.

Merger: Cullen/Frost and Horizon are proposing a merger of Horizon into a wholly owned subsidiary of Cullen/Frost.

Merger consideration: Set forth below is a description of the merger consideration. For an illustration of the consideration you may receive per share, see page 2 of the attached document.

The total consideration to be paid to Horizon shareholders in the merger consists of 1,400,000 shares of Cullen/Frost common stock and \$45,000,000 in cash. If the average trading price of the Cullen/Frost stock over the ten-trading-day period immediately prior to the merger's closing date is greater than \$53.46, the amount of cash will be reduced. If such average trading price is less than \$43.74, the amount of cash will be increased but not beyond \$50,236,000. Under certain circumstances, the aggregate amount of cash consideration may also be increased to the extent that the amount of pre-closing shareholders' equity minus \$38,000,000 exceeds 5% of the amount of pre-closing shareholders' equity. Pre-closing shareholders' equity means the total shareholders' equity of Horizon as of the month-end immediately preceding the merger's closing date, adjusted to take into account certain transaction expenses.

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Each Horizon shareholder will be entitled to elect to receive for each share of Horizon common stock either shares of Cullen/Frost common stock or cash, subject to the amount of shares and cash available and the election and allocation procedures in the merger agreement. **YOU MUST MAKE THIS ELECTION BY THE SPECIAL MEETING.**

Generally, to the extent that you receive Cullen/Frost common stock, the merger will be tax-free to you, other than with respect to any cash consideration or cash you receive for fractional shares.

The number of shares of Cullen/Frost common stock and the amount of cash to be received for each share of Horizon common stock will be based on a formula. This formula first values the aggregate consideration to be received by all Horizon shareholders in the merger using the average trading price of Cullen/Frost common stock described above and the amount of cash to be paid. It then divides that value by the number of shares of Horizon common stock outstanding at the time of the merger, which is expected to be 944,966. The result would be the amount of cash per share to be paid to Horizon shareholders. The number of shares of Cullen/Frost common stock to be exchanged for each share of Horizon stock would be equal to that per share cash amount divided by the average trading price of the Cullen/Frost common stock described above.

The total amount of Cullen/Frost common stock and cash available in the merger will be fixed at the time of the closing but the value of the consideration to be received by Horizon shareholders will change depending on changes in the market price of Cullen/Frost common stock and will not be known at the time Horizon's shareholders vote on the merger. Set forth below is an illustration based on various share prices, disregarding the impact of the special dividend described below.

Table of Contents

<u>Date</u>	<u>Closing</u>		<u>Exchange</u>
	<u>Cullen/Frost</u>		<u>Ratio/Value</u>
	<u>Share Price</u>	<u>Cash</u>	<u>Based on</u>
	<u>Share Price</u>	<u>Per Share</u>	<u>Cullen/Frost</u>
April 18, 2005, the last trading day before we announced our merger	\$ 44.43	\$ 113.45	2.5535
July 26, 2005	49.44	120.87	2.4447

Special Dividend: In addition to the merger consideration, Horizon is permitted to pay a special dividend at closing to the extent that, as of the close of the month prior to the merger's scheduled closing, Horizon's shareholders' equity, adjusted to take into account certain transaction expenses, exceeds \$38,000,000, provided that such amount does not exceed 5% of Horizon's pre-closing shareholders' equity. This amount will be divided by the number of shares of Horizon common stock outstanding immediately prior to the merger's effective time to determine the per share amount of the special dividend. If the amount of Horizon's shareholders' equity minus \$38,000,000 would exceed 5% of Horizon's pre-closing shareholders' equity, the amount of cash to be paid in the merger would be increased by an amount equal to the excess over 5%.

Based on estimated pre-closing shareholders' equity of \$40.8 million at June 30, 2005, after giving effect to the exercise of all stock options that occurred prior to the date hereof, the special dividend in the aggregate would be approximately \$2.04 million or \$2.16 per share of Horizon common stock and the additional amount added to the aggregate merger consideration would be approximately \$0.75 million or \$0.79 per share of Horizon common stock. The final amount of the special dividend will not be known until shortly before the consummation of the merger and may be more or less than the amount that would have been paid if the special dividend was based on June 30, 2005 financials.

Unanimous Board Approval/Fairness Opinion: The Board of Directors of Horizon has unanimously approved and recommends the Agreement and Plan of Merger, as amended, and believes that the merger is beneficial to all shareholders. Horizon's financial advisor, Hovde Financial LLC, has issued its opinion to Horizon's Board of Directors that the consideration in the merger is fair, from a financial point of view, to Horizon's shareholders.

Voting: The merger requires the approval of at least 66²/₃% of the outstanding shares of Horizon common stock. How you vote depends upon whether you are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, which I refer to sometimes as the shareholders agreement.

If You Are a Party to the Bay Area Bank and Trust

Voting and Stock Restriction Agreement

You are being asked to consider and vote on the proposal to approve the Agreement and Plan of Merger, as amended, and thus provide direction to me as the voting representative on the **blue proxy card** by completing it and returning it in the self addressed, postage prepaid envelope so that I as the voting representative may vote your shares at the special meeting in accordance with your wishes. You are also being asked to provide your written consent to the termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement to take effect immediately prior to the merger by means of voting for Item 2 on the **blue proxy card**.

All of the shares subject to the shareholders agreement will be voted by me for or against the proposal in the same proportion as I receive for or against proxies. As of the record date, there were 857,551 shares of Horizon common stock subject to the shareholders agreement representing approximately 91% of the issued and outstanding shares of Horizon common stock. Termination of the shareholders agreement requires the consent of holders of at least 65% (or 557,409 shares) of the shares of Horizon common stock subject to the shareholders agreement. The shareholders agreement is being terminated to eliminate certain restrictions on voting and transferability that would otherwise continue to apply to the Cullen/Frost common stock received in the merger.

Table of Contents

If You Are Not a Party to the Bay Area Bank and Trust

Voting and Stock Restriction Agreement

You are being asked to consider and vote on the proposal to approve the Agreement and Plan of Merger, as amended, on the **white proxy card** by completing it and returning it in the self addressed, postage prepaid envelope.

Regardless of the number of shares you own, or whether you plan to attend the special meeting, it is very important that you read the enclosed material carefully and vote as soon as possible to make sure that your shares are represented at the meeting. Not voting at all will have the same effect as voting against the merger.

If you have questions, or need any assistance regarding voting, you may call me at (713) 679-2600.

We look forward to seeing you at the special meeting.

Sincerely,

Jack L. Thetford

Chairman of the Board

This document and risks. Please read this document carefully, because it contains important information about the merger. **Read carefully the risk factors relating to the merger beginning on page 12.**

Neither the SEC nor any state securities commission has approved or disapproved the securities to be issued in the merger or determined if this document is accurate or adequate. It is illegal to tell you otherwise.

The securities to be issued in the merger are not savings or deposit accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

Proxy statement-prospectus dated July 28, 2005, and first mailed to shareholders on or about July 29, 2005.

Table of Contents

GENERAL INFORMATION

This proxy statement-prospectus incorporates by reference important business and financial information about Cullen/Frost Bankers, Inc. from other documents that are not included in or delivered with this proxy statement-prospectus. This information is available to you without charge upon your written or oral request. You can obtain those documents incorporated by reference in this proxy statement-prospectus by accessing the Securities and Exchange Commission's website maintained at <http://www.sec.gov> or by requesting copies in writing or by telephone from Cullen/Frost at the following address:

Cullen/Frost Bankers, Inc.

Attention: Investor Relations

100 West Houston Street

San Antonio, Texas 78205

(210) 220-4011

Horizon is not subject to the reporting and informational requirements maintained by the Securities and Exchange Commission and does not file reports or other information with the Securities and Exchange Commission.

If you would like to request documents, please do so by August 23, 2005 in order to receive them before Horizon's special shareholder meeting. If you request any documents incorporated by reference from Cullen/Frost, Cullen/Frost will mail them to you within one business day by first-class mail, or similar means.

See "Where You Can Find More Information" on page 67.

Table of Contents

HORIZON CAPITAL BANK
NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON AUGUST 30, 2005

To the Shareholders of

Horizon Capital Bank:

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Horizon Capital Bank, a Texas banking association, will be held at Horizon, 3707 Richmond Avenue, Houston, Texas, on August 30, 2005 at 4:00 p.m. local time, for the purpose of considering and voting upon the following matters:

Approval of the Agreement and Plan of Merger, dated April 19, 2005, as amended, between Cullen/Frost Bankers, Inc., a Texas corporation, and Horizon, the plan of merger contained in the merger agreement and the merger, pursuant to which Horizon will merge with and into a wholly owned subsidiary of Cullen/Frost, as more fully described in the attached proxy statement-prospectus.

To adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the merger.

Transaction of such other business as may properly come before the special meeting and any adjournments or postponements thereof.

We have fixed the close of business on July 25, 2005, as the record date for determining those shareholders entitled to notice of and to vote at the special meeting and any adjournments or postponements of the special meeting. Only Horizon shareholders of record at the close of business on that date are entitled to notice of the special meeting and any adjournments or postponements of the special meeting, and only Horizon common shareholders of record at the close of business on that date are entitled to vote at the special meeting and any adjournments or postponements of the special meeting. In order for the proposal to approve the merger agreement, the plan of merger and the merger to be adopted, the holders of 66²/₃% of the outstanding shares of Horizon common stock entitled to vote must vote in favor of approval of the proposal. Abstentions and broker non-votes will have the same effect as votes against approval of the merger agreement, the plan of merger and the merger. If you wish to attend the special meeting and your shares are held in the name of a broker, trust, bank or other nominee, you must bring with you a proxy or letter from the broker, trustee, bank or nominee to confirm your beneficial ownership of the shares.

By Order of the Board of Directors,

Jack L. Thetford

Chairman of the Board

Houston, Texas

July 27, 2005

Whether or not you plan to attend the special meeting in person, please complete, date, sign and return the enclosed white proxy card in the enclosed envelope. The enclosed envelope requires no postage if mailed in the United States. If you attend the special meeting, you may vote in person if you wish, even if you have previously returned your proxy card.

Horizon's board of directors unanimously recommends that you vote FOR approval of the merger agreement, the plan of merger and the merger.

Table of Contents

HORIZON CAPITAL BANK
NOTICE OF VOTING MEETING OF SHAREHOLDERS
SUBJECT TO THE
BAY AREA BANK AND TRUST VOTING AND STOCK RESTRICTION AGREEMENT
TO BE HELD ON AUGUST 30, 2005

To the Parties to the

Bay Area Bank and Trust Voting

and Stock Restriction Agreement:

NOTICE IS HEREBY GIVEN that Jack L. Thetford, the voting representative (the **Voting Representative**) under the Bay Area Bank and Trust Voting and Stock Restriction Agreement (the **Shareholders Agreement**), has called a voting meeting of the shareholders subject to the Shareholders Agreement to be held at Horizon Capital Bank, 3707 Richmond Avenue, Houston, Texas on August 30, 2005 at 3:30 p.m. local time, for the purpose of directing the Voting Representative on how to vote at the special meeting of the shareholders of Horizon Capital Bank upon the following matters:

Approval of the Agreement and Plan of Merger, dated April 19, 2005, as amended, between Cullen/Frost Bankers, Inc., a Texas corporation, and Horizon, pursuant to which Horizon will merge with and into a wholly owned subsidiary of Cullen/Frost, as more fully described in the attached proxy statement-prospectus.

To terminate the Shareholders Agreement immediately prior to the effectiveness of the merger.

To adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the merger.

Transaction of such other business as may properly come before the special meeting and any adjournments or postponements thereof.

The Voting Representative has fixed the close of business on July 25, 2005, as the record date for determining those shareholders entitled to notice of and to vote at the voting meeting and any adjournments or postponements of the voting meeting. Only Horizon shareholders of record at the close of business on that date and subject to the Shareholders Agreement are entitled to notice of the voting meeting and any adjournments or postponements of the voting meeting, and only such Horizon shareholders are entitled to vote at the voting meeting and any adjournments or postponements of the voting meeting. All shares subject to the Shareholders Agreement will be voted by the Voting Representative either for or against each proposal at the special meeting in the same proportion as the Voting Representative receives for or against proxies or votes at the voting meeting. In order for the proposal to terminate the Shareholders Agreement to be adopted, the holders of at least 65% of the shares of Horizon common stock subject to the Shareholders Agreement entitled to vote must vote in favor of approval of the proposal, and agree in writing, to terminate the Shareholders Agreement by means of voting for Item 2 on the blue proxy card. Abstentions and broker non-votes will have the same effect as votes against approval of each proposal. If you wish to attend the voting meeting and your shares are held in the name of

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a broker, trust, bank or other nominee, you must bring with you a proxy or letter from the broker, trustee, bank or nominee to confirm your beneficial ownership of the shares.

By Order of the Voting Representative

Jack L. Thetford

Voting Representative

Houston, Texas

July 27, 2005

Whether or not you plan to attend the voting meeting in person, please complete, date, sign and return the enclosed blue proxy card in the enclosed envelope. The enclosed envelope requires no postage if mailed in the United States. If you attend the voting meeting, you may vote in person if you wish, even if you have previously returned your proxy card.

Table of Contents**TABLE OF CONTENTS**

	<u>Page</u>
SUMMARY	1
<u>We Propose a Merger of Horizon and Cullen/Frost (Page 17)</u>	1
<u>You Will Receive Cash and/or Shares of Cullen/Frost Common Stock in the Merger Depending on Your Election and Subject to the Proration Provisions of the Merger Agreement (Page 34)</u>	1
<u>Regardless of Whether You Make a Cash Election or a Stock Election, You May Nevertheless Receive a Mix of Cash and Stock (Page 34)</u>	3
<u>In Order to Make an Election, You Must Properly Complete and Deliver an Election Form Prior to the Election Deadline, which is 5:00 p.m. on the date of the Special Meeting (Page 36)</u>	3
<u>Horizon May Pay a Special Dividend (Page 40)</u>	3
<u>Treatment of Horizon Stock Options (Page 35)</u>	4
<u>Tax Consequences of the Merger (Page 27)</u>	4
<u>The Merger Will Be Accounted for as a Purchase (Page 30)</u>	5
<u>Horizon's Board Recommends That You Vote FOR the Merger (Page 18)</u>	5
<u>Horizon's Reasons for the Merger (Page 18)</u>	5
<u>Hovde Financial Provided an Opinion to Horizon's Board stating that, as of April 19, 2005 and based upon and subject to the factors and assumptions set forth in the opinion, that the Merger Consideration was Fair From a Financial Point of View to Horizon Shareholders (Page 19)</u>	5
<u>Horizon's Directors and Executive Officers May Have Interests in the Merger that Differ from Your Interests (Page 30)</u>	5
<u>Horizon Shareholders Have Dissenters' Rights of Appraisal (Page 47)</u>	6
<u>We Have Agreed When and How Horizon Can Consider Third-Party Acquisition Proposals (Page 39)</u>	6
<u>Merger Approval Requires a Vote of 66²/3% by Horizon Shareholders (Page 14)</u>	6
<u>Certain Shareholders of Horizon Have Agreed to Vote Their Shares FOR the Merger (Page 50 and <i>Appendix A, Annex 1</i>)</u>	7
<u>We Must Meet Several Conditions to Complete the Merger (Page 43)</u>	7
<u>We Must Obtain Regulatory Approvals to Complete the Merger (Page 46)</u>	8
<u>We May Terminate the Merger Agreement (Page 43)</u>	8
<u>We May Amend or Waive Merger Agreement Provisions (Page 45)</u>	9
<u>The Rights of Horizon Shareholders Following the Merger Will be Different (Page 63)</u>	9
<u>Information About Cullen/Frost and Horizon (Page 55)</u>	9
<u>Special Meeting of Horizon (Page 13)</u>	9
<u>Selected Financial Data of Cullen/Frost (Historical)</u>	10
RISK FACTORS	12
<u>The Price of Cullen/Frost Common Stock May Decrease Before and After the Merger, Which Would in Certain Cases Decrease the Market Value of the Merger Consideration Received by Horizon Stockholders.</u>	12
<u>Stockholders May Receive a Form of Consideration Different From What They Elect.</u>	12
<u>If the Aggregate Amount of the Special Dividend that Horizon May Pay and the Total Merger Consideration is Less than Certain Pre-Agreed Levels, and Cullen/Frost Does Not Elect to Increase the Total Consideration, Horizon May Terminate the Merger Agreement.</u>	12

Table of Contents

	<u>Page</u>
<u>Regulatory Approvals May Not Be Received, May Take Longer than Expected or Impose Conditions Which Are Not Presently Anticipated.</u>	13
<u>The Merger Agreement Limits Horizon's Ability to Pursue Alternatives to the Merger.</u>	13
<u>HORIZON SPECIAL MEETING</u>	13
<u>Matters To Be Considered</u>	13
<u>Record Date</u>	14
<u>Action Required</u>	14
<u>Solicitation Shareholders Who Are Party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement</u>	14
<u>Solicitation Shareholders Who Are Not a Party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement</u>	15
<u>Proxies</u>	15
<u>Consent</u>	15
<u>Recommendation of Horizon's Board</u>	16
<u>THE MERGER</u>	17
<u>Background of the Merger</u>	17
<u>Recommendation of Horizon's Board and Its Reasons for the Merger</u>	18
<u>Horizon's Reasons for the Merger</u>	18
<u>Opinion of Horizon's Financial Advisor</u>	19
<u>Material Federal Income Tax Consequences of the Merger</u>	27
<u>Accounting Treatment</u>	30
<u>Interests of Certain Persons in the Merger</u>	30
<u>THE MERGER AGREEMENT</u>	32
<u>Structure</u>	32
<u>Merger Consideration</u>	32
<u>Conversion of Shares; Exchange of Certificates; Elections as to Form of Consideration; Fractional Shares</u>	35
<u>Effective Time</u>	37
<u>Representations and Warranties</u>	37
<u>Conduct of Business Pending the Merger</u>	38
<u>Acquisition Proposals by Third Parties</u>	39
<u>Special Dividend</u>	40
<u>Other Agreements</u>	41
<u>Conditions to Completion of the Merger</u>	43
<u>Termination of the Merger Agreement</u>	43
<u>Waiver and Amendment of the Merger Agreement</u>	45
<u>Regulatory Approvals Required for the Merger</u>	46
<u>Stock Exchange Listing</u>	47
<u>Restrictions on Resales by Affiliates</u>	47

Table of Contents

	<u>Page</u>
<u>Dissenters' Rights of Appraisal of Horizon Shareholders</u>	47
<u>Termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement</u>	50
<u>Voting Agreements</u>	50
 <u>PRICE RANGE OF COMMON STOCK AND DIVIDENDS</u>	 52
<u>Cullen/Frost</u>	52
<u>Horizon</u>	52
 <u>INFORMATION ABOUT CULLEN/FROST AND HORIZON</u>	 55
<u>Cullen/Frost</u>	55
<u>Horizon</u>	55
 <u>DESCRIPTION OF CULLEN/FROST CAPITAL STOCK</u>	 60
<u>General</u>	60
<u>Preferred Stock</u>	60
<u>Common Stock</u>	60
<u>Shareholder Protection Rights Agreement</u>	61
 <u>COMPARISON OF SHAREHOLDER RIGHTS</u>	 63
<u>Authorized Capital Stock</u>	63
<u>Size of Board of Directors</u>	63
<u>Classes of Directors</u>	63
<u>Removal of Directors</u>	63
<u>Filling Vacancies on the Board of Directors</u>	64
<u>Nomination of Director Candidates by Shareholders</u>	64
<u>Calling Special Meetings of Shareholders</u>	64
<u>Shareholder Proposals</u>	64
<u>Notice of Shareholder Meetings</u>	65
<u>Anti-Takeover Provisions and Shareholder Protection Rights Agreement</u>	65
<u>Indemnification of Directors and Officers</u>	66
<u>Amendments to Articles/Certificate of Incorporation and By-Laws</u>	66
 <u>VALIDITY OF SECURITIES</u>	 67
 <u>EXPERTS</u>	 67
 <u>OTHER MATTERS</u>	 67
 <u>WHERE YOU CAN FIND MORE INFORMATION</u>	 67
 <u>FORWARD-LOOKING STATEMENTS</u>	 70
 <u>APPENDIX A: Agreement and Plan of Merger (including annexes and amendment)</u>	

APPENDIX B: Bay Area Bank and Trust Voting and Stock Restriction Agreement

APPENDIX C: Hovde Fairness Opinion, dated April 19, 2005

APPENDIX D: Provisions of Texas Law Relating to Dissenting Shareholders

iii

Table of Contents

SUMMARY

This summary highlights selected information from this document. It may not contain all the information that is important to you. We urge you to read carefully this entire document and the other documents to which we refer you for a more complete understanding of the merger between Cullen/Frost and Horizon. In addition, we incorporate by reference into this document important business and financial information about Cullen/Frost. You may obtain the information incorporated by reference in this document without charge by following the instructions in the section entitled **Where You Can Find More Information on page 67. Each item in this summary includes a page reference directing you to a more complete description of that item.**

We Propose a Merger of Horizon and Cullen/Frost (Page 17)

We propose that Horizon merge with and into a newly formed, wholly owned bank subsidiary of Cullen/Frost, with the bank subsidiary as the surviving corporation. The separate existence of Horizon will terminate. Immediately following the merger, the capital stock of the bank subsidiary will be contributed to a wholly owned, bank holding company subsidiary of Cullen/Frost. Immediately following the contribution, the bank subsidiary will merge with and into The Frost National Bank, an indirect, wholly owned subsidiary of Cullen/Frost. We expect to complete the merger in the fourth quarter of 2005.

You Will Receive Cash and/or Shares of Cullen/Frost Common Stock in the Merger Depending on Your Election and Subject to the Proration Provisions of the Merger Agreement (Page 34)

You will have the right to elect to receive merger consideration for each of your shares of Horizon common stock in the form of cash or shares of Cullen/Frost common stock, subject to proration and adjustment in circumstances described below. If you do not submit an election prior to the election deadline, you will be allocated Cullen/Frost common stock and/or cash pursuant to the procedures described under **The Merger Agreement Merger Consideration** on page 32.

The value and amount of the merger consideration will fluctuate with the value of Cullen/Frost common stock and will be determined based on the average of the last reported per share sales prices of Cullen/Frost common stock on the New York Stock Exchange over the ten-trading-day period immediately prior to the merger's closing date. As explained in more detail in this document, based on the Cullen/Frost stock price used to calculate the merger consideration, the value of the consideration that you will receive upon completion of the merger will be the same regardless of whether you elect to receive the cash or stock consideration. You may specify different elections with respect to different shares that you hold (if, for example, you own 100 shares, you could make a cash election with respect to 50 shares and a stock election with respect to the other 50 shares).

The total consideration to be paid to Horizon shareholders in the merger consists of 1,400,000 shares of Cullen/Frost common stock and \$45,000,000 in cash. If the average trading price of the Cullen/Frost stock over the ten-trading-day period immediately prior to the merger's closing date is greater than \$53.46, the amount of cash will be reduced. If such average trading price is less than \$43.74, the amount of cash will be increased, but not above \$50,236,000. Under certain circumstances, the aggregate amount of cash consideration may also be increased to the extent that the amount of pre-closing shareholders equity minus \$38,000,000 exceeds 5% of the amount of pre-closing shareholders equity. Pre-closing shareholders equity means the total shareholders equity of Horizon as of the month-end immediately preceding the merger's closing date, adjusted to take into account certain transaction expenses.

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Each Horizon shareholder will be entitled to elect to receive for each share of Horizon common stock either shares of Cullen/Frost common stock or cash, subject to the amount of shares and cash available and the election and allocation procedures in the merger agreement.

Table of Contents

The number of shares of Cullen/Frost common stock and the amount of cash to be received for each share of Horizon common stock will be based on a formula. This formula first values the aggregate consideration to be received by all Horizon shareholders in the merger using the average trading price of Cullen/Frost common stock described above and the amount of cash to be paid. It then divides that value by the number of shares of Horizon common stock outstanding at the time of the merger, which is expected to be 944,966. The result would be the amount of cash per share to be paid to Horizon shareholders. The number of shares of Cullen/Frost common stock to be exchanged for each share of Horizon stock would be equal to that per share cash amount divided by the average trading price of the Cullen/Frost common stock described above.

The total amount of Cullen/Frost common stock and cash available in the merger will be fixed at the time of the closing but the value of the consideration to be received by Horizon shareholders will change depending on changes in the market price of Cullen/Frost common stock and will not be known at the time Horizon's shareholders vote on the merger.

Set forth below is a table showing a hypothetical range of prices for shares of Cullen/Frost common stock and the corresponding consideration that a Horizon shareholder would receive in a cash election and a stock election under the merger consideration formula based on the number of fully diluted shares of Horizon common stock currently outstanding, after exercise of stock options. The table does not reflect the fact that cash will be paid instead of fractional shares and the additional amount of cash that may be payable because of the limit on the special dividend, if any.

Total Merger Consideration					
Aggregate					
Amount of					
Cash					
Hypothetical	(excluding any			Number of	Value of
Ten-Day	Aggregate	additional	Cash Amount	Shares of	Shares of
Average	Number of	amount	Per Share of	Cullen/Frost	Cullen/Frost
Closing Sales	Shares of	resulting from	Horizon Stock	Common	Common
Price for	Cullen/Frost	the limit on	Horizon Stock	Stock for	Stock Based
Cullen/Frost	Common	the special	Per Share of	Each Share of	on Ten-Day
Common	Stock	dividend)	Horizon Stock	Horizon Stock	Average
Stock	Stock	dividend)	Horizon Stock	Horizon Stock	Average
\$35.00	1,400,000	\$50,236,000.00	\$105.02	3.0004	\$49,000,000.00
36.00	1,400,000	50,236,000.00	106.50	2.9582	50,400,000.00
37.00	1,400,000	50,236,000.00	107.98	2.9183	51,800,000.00
38.00	1,400,000	50,236,000.00	109.46	2.8805	53,200,000.00
39.00	1,400,000	50,236,000.00	110.94	2.8447	54,600,000.00
40.00	1,400,000	50,236,000.00	112.42	2.8106	56,000,000.00
41.00	1,400,000	48,836,000.00	112.42	2.7420	57,400,000.00
42.00	1,400,000	47,436,000.00	112.42	2.6767	58,800,000.00
43.00	1,400,000	46,036,000.00	112.42	2.6145	60,200,000.00
44.00	1,400,000	45,000,000.00	112.81	2.5638	61,600,000.00
45.00	1,400,000	45,000,000.00	114.29	2.5398	63,000,000.00
46.00	1,400,000	45,000,000.00	115.77	2.5168	64,400,000.00
47.00	1,400,000	45,000,000.00	117.25	2.4947	65,800,000.00

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48.00	1,400,000	45,000,000.00	118.73	2.4736	67,200,000.00
49.00	1,400,000	45,000,000.00	120.22	2.4534	68,600,000.00
50.00	1,400,000	45,000,000.00	121.70	2.4340	70,000,000.00
51.00	1,400,000	45,000,000.00	123.18	2.4153	71,400,000.00
52.00	1,400,000	45,000,000.00	124.66	2.3973	72,800,000.00
53.00	1,400,000	45,000,000.00	126.14	2.3800	74,200,000.00
54.00	1,400,000	44,244,000.00	126.82	2.3486	75,600,000.00
55.00	1,400,000	42,844,000.00	126.82	2.3059	77,000,000.00

Table of Contents

The examples above are illustrative only. The value of the merger consideration that you actually receive will be based on the average trading price of Cullen/Frost common stock prior to completion of the merger, as described above. If that average price is not included in the table above, including because the price is outside the range of the amounts set forth above, we do not intend to re-solicit proxies from Horizon shareholders in connection with the merger.

The consideration to be paid to shareholders and the amount of the special dividend is not expected to be determined until shortly before the completion of the merger. We intend to announce these amounts by press release when known and to post this release on Cullen/Frost's website (www.frostbank.com). For a summary of the formula contained in the merger agreement, see "The Merger Agreement Merger Consideration" on page 32.

Regardless of Whether You Make a Cash Election or a Stock Election, You May Nevertheless Receive a Mix of Cash and Stock (Page 34)

The aggregate number of shares of Cullen/Frost common stock that will be issued and the aggregate amount of cash that will be paid to Horizon shareholders as consideration in the merger are fixed at 1,400,000 shares and \$45,000,000 in cash, respectively, subject to possible adjustment of the cash amount, as described under "The Merger Agreement Merger Consideration" on page 32. **As a result, if too many shareholders elect to receive Cullen/Frost common stock or cash, shareholders electing the over-subscribed form of consideration will be proportionately cut back and will receive a portion of their consideration in the other form, despite their election.**

In Order to Make an Election, You Must Properly Complete and Deliver an Election Form Prior to the Election Deadline, which is 5:00 p.m. on the date of the Special Meeting (Page 36)

At the time this proxy statement-prospectus is mailed, an exchange agent will mail or deliver to holders of record a **form of election and transmittal materials**. You must properly complete and deliver to the exchange agent the election materials along with your stock certificates (or a properly completed notice of guaranteed delivery). Please **do not** send your stock certificates or form of election with your proxy card for the special meeting or the voting meeting.

Forms of election and stock certificates (or a properly completed notice of guaranteed delivery) must be received by the exchange agent by the election deadline, which will be 5:00 p.m., Central Time, on the date of the special meeting. Once you tender your stock certificates to the exchange agent, you may not transfer your Horizon shares, unless you revoke your election by written notice to the exchange agent which is received prior to the election deadline.

If you fail to submit a properly completed form of election, together with your stock certificates (or a properly completed notice of guaranteed delivery), prior to the election deadline, you will be deemed not to have made an election. As a non-election holder, you will be paid approximately equivalent value per share to the amount paid per share to the holders making elections, but you may be paid all in cash, all in Cullen/Frost common stock, or in part cash and in part Cullen/Frost common stock, depending on the remaining pool of cash and Cullen/Frost common stock available for paying the merger consideration after honoring the cash elections and stock elections that other shareholders have made.

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If you own shares of Horizon common stock in street name through a bank, broker or other financial institution and you wish to make an election, you should seek instructions from the financial institution holding your shares concerning how to make your election.

If the merger is not completed for any reason or if a shareholder revokes his or her election, any stock certificates submitted prior to that time will be returned by the exchange agent.

Horizon May Pay a Special Dividend (Page 40)

Prior to the effective date of the merger, Horizon is permitted to pay a one-time, special dividend on the outstanding shares of Horizon common stock to the extent that as of the close of the month prior to the merger's scheduled closing, Horizon's shareholders equity, adjusted to take into account certain transaction expenses, exceeds \$38,000,000, provided that such amount does not exceed 5% of Horizon's pre-closing shareholders equity. This amount will be divided by the number of shares of Horizon common stock outstanding

Table of Contents

immediately prior to the merger's effective time to determine the per share amount of the special dividend. If the amount of Horizon's shareholders' equity minus \$38,000,000 would exceed 5% of Horizon's pre-closing shareholders' equity, the amount of cash to be paid in the merger would be increased by an amount equal to the excess over 5%.

Based on estimated pre-closing shareholders' equity of \$40.8 million at June 30, 2005, after giving effect to the exercise of all stock options that occurred prior to the date hereof, the special dividend in the aggregate would be approximately \$2.04 million or \$2.16 per share of Horizon common stock and the additional amount added to the aggregate merger consideration would be approximately \$0.75 million or \$0.79 per share of Horizon common stock. The final amount of the special dividend will not be known until shortly before the consummation of the merger and may be more or less than the amount that would have been paid if the special dividend was based on June 30, 2005 financials.

Treatment of Horizon Stock Options (Page 35)

In the merger agreement, Horizon agreed to take all action necessary to ensure that each stock option held by Horizon directors or employees will be exercised before the record date of its special meeting. Pursuant to the merger agreement, Horizon has taken such action and each option was exercised before the record date.

Tax Consequences of the Merger (Page 27)

The tax consequences of the merger to you will depend upon the form of consideration you receive in the merger.

If you receive solely shares of Cullen/Frost common stock and cash in lieu of a fractional share in exchange for your Horizon common stock, then you generally will not recognize any gain or loss, except with respect to the fractional share.

If you receive solely cash, then you generally will recognize gain and likely will be permitted to recognize loss equal to the difference between the amount of cash you receive and your cost basis in your Horizon common stock. The tax treatment of any gain will depend upon your individual circumstances. Horizon shareholders should consult their tax advisors regarding the tax consequences of the merger on them personally.

If you receive a combination of Cullen/Frost common stock and cash, other than cash in lieu of a fractional share, in exchange for your Horizon common stock, then you generally will recognize gain in an amount equal to the lesser of the total amount of cash received or the amount of gain realized on the exchange, but you are not permitted to recognize a loss. Any gain recognized may be treated as a dividend or capital gain, depending on your particular circumstances.

In the opinion of Sullivan & Cromwell LLP and Jenkins & Gilchrist, P.C., for United States federal income tax purposes:

the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and each of Cullen/Frost and Horizon will be a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code; and

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no gain or loss will be recognized by the holders of Horizon common stock who receive Cullen/Frost common stock in exchange for Horizon common stock pursuant to the merger, except with respect to cash consideration or cash received in lieu of fractional share interests.

For a complete description of the material United States federal income tax consequences of the transaction, see Material Federal Income Tax Consequences of the Merger on page 27.

The opinions of Sullivan & Cromwell LLP and Jenkins & Gilchrist, P.C. are based in part on certain assumptions and on representations that Cullen/Frost and Horizon made to Sullivan & Cromwell LLP and Jenkins & Gilchrist, P.C. These opinions are exhibits to the registration statement filed with the SEC in connection with this document.

Cullen/Frost and Horizon will not be obligated to complete the merger unless Sullivan & Cromwell LLP and Jenkins & Gilchrist, P.C. confirm the tax

Table of Contents

consequences summarized above by issuing additional opinion letters to the same effect on the closing date.

The Merger Will Be Accounted for as a Purchase (Page 30)

The merger will be treated as a purchase by Cullen/Frost of Horizon under generally accepted accounting principles, or GAAP.

Horizon's Board Recommends That You Vote FOR the Merger (Page 18)

Horizon's board of directors believes that the merger is in the best interests of Horizon and its shareholders and that the merger consideration is fair to Horizon shareholders, and unanimously recommends that Horizon shareholders vote FOR approval of the merger agreement, the plan of merger and the merger.

Horizon's Reasons for the Merger (Page 18)

For a discussion of the factors considered by the Horizon board of directors in reaching its decision to approve the merger agreement and the transactions contemplated thereby, see The Merger Recommendation of Horizon's Board and Its Reasons for the Merger .

Hovde Financial Provided an Opinion to Horizon's Board stating that, as of April 19, 2005 and based upon and subject to the factors and assumptions set forth in the opinion, that the Merger Consideration was Fair From a Financial Point of View to Horizon Shareholders (Page 19)

On March 30, 2005, the date the Horizon board approved the merger, Hovde Financial LLC, Horizon's financial advisor, rendered an oral opinion to Horizon's board that, as of that date and subject to a number of factors and assumptions, the aggregate merger consideration to be received by Horizon shareholders was fair from a financial point of view to the holders of Horizon common stock. Hovde Financial confirmed its opinion by delivery of a written opinion dated April 19, 2005. The full text of Hovde Financial's written opinion is attached to this proxy statement-prospectus as *Appendix C*. We encourage you to read this opinion carefully and in its entirety. The Hovde Financial opinion is not a recommendation as to how any Horizon shareholder should vote or act with respect to the merger.

Under the terms of its engagement, Horizon has agreed to pay Hovde Financial an aggregate fee equal to \$35,000 plus the sum of the following for its financial advisory services, including its opinion, in connection with the merger:

one-half of one percent (0.50%) of that portion of the merger consideration that is less than or equal to one-hundred-million dollars (\$100,000,000); plus

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three percent (3.0%) of that portion of the purchase consideration that is greater than one-hundred-million dollars (\$100,000,000) but less than or equal to one-hundred-ten-million dollars (\$110,000,000); plus

five percent (5.0%) of that portion of the purchase consideration that is greater than one-hundred-ten-million dollars (\$110,000,000) but less than or equal to one-hundred-twenty-million dollars (\$120,000,000); plus

seven percent (7.0%) of that portion of the purchase consideration that is greater than one-hundred-twenty-million dollars (\$120,000,000).

In addition, Horizon has agreed to reimburse Hovde Financial for its reasonable out-of-pocket expenses and indemnify Hovde Financial against various liabilities.

Horizon's Directors and Executive Officers May Have Interests in the Merger that Differ from Your Interests (Page 30)

Some of Horizon's directors and executive officers have interests in the merger other than their interests as shareholders. The members of Horizon's board of directors knew about these additional interests and considered them when they adopted the merger agreement, the plan of merger and the merger.

The following provides more detail about the payments, benefits and other interests of certain Horizon directors and executive officers.

Horizon has a stock option plan for its officers and key employees to purchase common stock of Horizon. Under the merger agreement, Horizon agreed to take all action necessary to ensure that each stock option granted under the plan will be exercised before the record date of

Table of Contents

Horizon's special meeting. Each option not exercised or forfeited before Horizon's special meeting would be cancelled for no consideration. As of April 19, 2005, the officers and directors as a group held options on 117,600 shares with an average exercise price of \$45.23. All of these options were exercised prior to the record date. Under the merger agreement, if an officer or director exercises his or her stock options, that officer or director has priority to receive, as consideration for his or her shares of Horizon common stock, all Cullen/Frost common stock under the proration procedures described below in the event that the stock election is oversubscribed.

Under the merger agreement, Cullen/Frost has agreed to grant, as of the effective time of the merger, 70,000 options to purchase Cullen/Frost common stock to Horizon employees selected by Cullen/Frost in its sole discretion.

Under the merger agreement, Cullen/Frost has agreed to indemnify the directors and officers of Horizon against liabilities arising out of actions or omissions occurring at or before the completion of the merger.

The merger agreement also provides that, subject to certain limitations, Cullen/Frost will maintain Horizon's existing director's and officer's liability insurance for a period of three years after the merger is completed.

Horizon Shareholders Have Dissenters' Rights of Appraisal (Page 47)

If you are a shareholder of Horizon, you may elect to dissent from the merger by following the procedures set forth in Article 5 of the Texas Business Corporation Act (the "TBCA") and receive the fair value of your shares of Horizon common stock in cash. For more information regarding your right to dissent from the merger, please read the section titled "Dissenters' Rights of Appraisal of Horizon Shareholders," beginning on page 47. We have also attached a copy of the relevant provisions of Article 5 of the TBCA as *Appendix D* to this proxy statement-prospectus.

We Have Agreed When and How Horizon Can Consider Third-Party Acquisition Proposals (Page 39)

We have agreed that Horizon will not initiate or solicit proposals from third parties regarding acquiring Horizon or its businesses. In addition, we have agreed that Horizon will not engage in negotiations with or provide confidential information to a third party regarding acquiring Horizon or its businesses. However, if Horizon receives an acquisition proposal from a third party, Horizon can participate in negotiations with and provide confidential information to the third party if, among other steps, Horizon's board of directors concludes in good faith that the proposal is a proposal that is superior to our merger. Horizon's receipt of a superior proposal or participation in such negotiations does not give Horizon the right to terminate the merger agreement.

Merger Approval Requires a Vote of 66²/3% by Horizon Shareholders (Page 14)

In order to approve the merger agreement, the plan of merger and the merger, the holders of 66²/3% of Horizon's common shares outstanding as of July 25, 2005 must vote in favor of those matters. As of that date, Horizon directors and executive officers and their affiliates beneficially owned about 370,178, or approximately 39.2%, of the shares entitled to vote at the Horizon special meeting excluding shares attributable to Mr. Thetford as a result of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. There are 85,658 shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement that Mr. Thetford is deemed to beneficially own.

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How you vote depends upon whether you are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement.

If you are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement: The voting representative is calling a voting meeting of the parties to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, or shareholders agreement, immediately prior to the special meeting for the purpose of directing the voting representative's vote of the Horizon common stock subject to such agreement. These shareholders are

Table of Contents

being asked to indicate their approval of the proposal to approve the Agreement and Plan of Merger and thus provide direction to the voting representative. In addition, Horizon shareholders who are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement are being asked to provide their written consent to the termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement to take effect immediately prior to the merger by means of voting for Item 2 on the blue proxy card.

All of the shares subject to the shareholders agreement will be voted by the voting representative for or against the proposal in the same proportion as he receives for or against directions. Shares of Horizon common stock subject to the shareholders agreement represent approximately 91% of the issued and outstanding shares of Horizon common stock. Termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement requires the written consent of holders of at least 65% (or 557,409 shares) of the shares of Horizon common stock subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement. The Bay Area Bank and Trust Voting and Stock Restriction Agreement is being terminated to eliminate certain restrictions on voting and transferability that would otherwise continue to apply to the Cullen/Frost common stock received in the merger.

If you are not a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement: Horizon is calling a special meeting of shareholders and if you are not a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, you are being asked to consider and vote on the proposal to approve the merger agreement, plan of merger and merger at that special meeting.

Certain Shareholders of Horizon Have Agreed to Vote Their Shares FOR the Merger (Page 50 and Appendix A, Annex 1)

As an inducement to and condition of Cullen/Frost's willingness to enter into the merger agreement, the beneficial owners of an aggregate of 30.2% of Horizon's outstanding common stock entered into voting agreements, pursuant to which, among other things, those owners agreed to vote all of their shares of Horizon common stock in favor of the merger agreement, the plan of merger, the merger and other matters required to be approved or adopted to effect the merger and the other transactions contemplated by the merger agreement and plan of merger.

We Must Meet Several Conditions to Complete the Merger (Page 43)

Our obligations to complete the merger depend on a number of conditions being met. These include:

the approval of the merger agreement, the plan of merger and the merger by Horizon shareholders;

the listing of the shares of Cullen/Frost common stock to be issued in the merger on the NYSE;

the receipt of the required approvals of federal and state regulatory authorities;

the absence of any government action or other legal restraint or prohibition that would prohibit the merger or make it illegal;

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the receipt of legal opinions that, for United States federal income tax purposes, the merger will be treated as a reorganization and no gain or loss will be recognized by Horizon shareholders who receive Cullen/Frost common stock in exchange for all of their Horizon common stock, except with respect to any cash consideration or cash received for fractional interests. These opinions will be based on customary assumptions and on factual representations made by Cullen/Frost and Horizon and will be subject to various limitations;

the representations and warranties of the other party to the merger agreement being true and correct in all material respects, and the other party to the merger agreement having performed in all material respects all its obligations under the merger agreement; and

the aggregate value at closing of the stock consideration divided by the total closing consideration must be equal to or greater than 0.45;

with regard to Cullen/Frost's obligation (but not Horizon's), the number of dissenting shares must not exceed 15% of Horizon's common stock.

Table of Contents

Where the law permits, either of us could choose to waive a condition to our obligation to complete the merger even when that condition has not been satisfied. We cannot be certain when, or if, the conditions to the merger will be satisfied or waived, or that the merger will be completed. Although the merger agreement allows us to waive the tax opinion condition, we do not currently anticipate doing so. If either of us does waive the condition, we will inform you of this fact and ask you to vote on the merger taking this into consideration.

We Must Obtain Regulatory Approvals to Complete the Merger (Page 46)

The Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency must approve the merger before the merger can be completed.

The merger is also subject to certain filing and other requirements with the Texas Department of Banking.

We May Terminate the Merger Agreement (Page 43)

We can mutually agree at any time to terminate the merger agreement without completing the merger, even if Horizon's shareholders have approved the merger agreement, the plan of merger and the merger. Also, either of us can decide, without the consent of the other, to terminate the merger agreement in certain circumstances, including:

if there is a final denial of a required regulatory approval;

if the merger is not completed on or before November 30, 2005; or

if there is a continuing breach of the merger agreement by the other party, after 60 days' written notice to the breaching party, as long as that breach would allow the non-breaching party not to complete the merger.

Also, Cullen/Frost may terminate the merger agreement:

if Horizon's board of directors fails to recommend approval of the merger agreement, the plan of merger and the merger to its shareholders, or withdraws or materially and adversely modifies its recommendation;

if Horizon's board recommends an acquisition proposal other than the merger, or if Horizon's board negotiates or authorizes negotiations with a third party regarding an acquisition proposal other than the merger and those negotiations continue for at least five business days;

if a continuing violation, breach or default has occurred under a voting agreement; or

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if the number of dissenting shares exceeds 15% of the outstanding shares of Horizon common stock.

Horizon may terminate the merger agreement if the sum of the total merger consideration and the special dividend that Horizon is permitted to pay is less than \$105,000,000 and Cullen/Frost does not exercise its option to increase the total merger consideration by increasing the total cash consideration.

Whether or not the merger is completed, we will each pay our own fees and expenses, except that Cullen/Frost will pay the costs and expenses that we incur in preparing, printing and mailing this document and filing fees paid in connection with the registration statement and all applications for government approvals, except fees paid to counsel, financial advisors and accountants.

The merger agreement also provides that Horizon must pay Cullen/Frost a fee equal to \$3,750,000 if one of the following situations occurs on or before certain specified dates:

Horizon enters into an agreement to engage in a competing acquisition proposal with any person other than Cullen/Frost or any of Cullen/Frost's subsidiaries;

Horizon authorizes, recommends, proposes (or publicly announces its intention to authorize, recommend or propose) an agreement to engage in a competing acquisition proposal with any such person or its board recommends that Horizon shareholders approve or accept such competing acquisition proposal; or

any person, other than Cullen/Frost or its subsidiaries, acquires beneficial ownership

Table of Contents

or the right to acquire beneficial ownership of 33 1/3% or more of the outstanding shares of Horizon common stock.

We May Amend or Waive Merger Agreement Provisions (Page 45)

We may jointly amend the merger agreement, and each of us may waive our right to require the other party to follow particular provisions of the merger agreement. However, we may not amend the merger agreement after Horizon's shareholders approve it if the amendment would legally require the plan of merger to be resubmitted to Horizon shareholders or would violate Texas law.

Cullen/Frost may also change the structure of the merger, as long as any change does not change the amount or type of stock or other payment to be received by Horizon shareholders and the holders of options to purchase Horizon common stock, does not adversely affect the timing of completion of the merger, does not adversely affect the tax consequences of the merger to Horizon shareholders and does not cause any of the conditions to complete the merger to be incapable of being satisfied.

The Rights of Horizon Shareholders Following the Merger Will be Different (Page 63)

The rights of Cullen/Frost shareholders are governed by Texas law and by Cullen/Frost's restated articles of incorporation and amended by-laws. The rights of Horizon shareholders are also governed by Texas law, and by Horizon's amended and restated articles of association and by-laws. Upon our completion of the merger, the rights of both shareholder groups will be governed by Texas law and Cullen/Frost's restated articles of incorporation and amended by-laws.

Information About Cullen/Frost and Horizon (Page 55)

Cullen/Frost Bankers, Inc.

100 West Houston Street

San Antonio, Texas 78205

(210) 220-4011

Cullen/Frost is a financial holding company and a bank holding company headquartered in San Antonio, Texas that provides, through its subsidiaries, a broad array of products and services throughout 12 Texas markets. Cullen/Frost and its subsidiaries offer commercial and consumer banking services, as well as trust and investment management, investment banking, insurance brokerage, leasing, asset-based lending, treasury management and item processing services. At June 30, 2005, Cullen/Frost had consolidated total assets of \$10.0 billion and was one of the largest independent bank holding companies headquartered in the State of Texas.

Horizon Capital Bank

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1021 Main Street, Suite 100

Houston, Texas 77002

(713) 679-2600

Horizon is a Texas banking association with its main office in Houston, Texas. Horizon has no holding company and no operating subsidiaries. Horizon provides traditional deposit, lending and mortgage products and services to its commercial and retail customers through five full service branch offices (with a sixth location scheduled to open summer of 2005) located in Houston and the Bay Area. Horizon was originally formed as a community bank in 1963. At June 30, 2005, Horizon had total assets of \$395.3 million, total deposits of \$294.6 million, a Tier 1 risk-based capital ratio of 11.7%, a total risk-based capital ratio of 12.7% and a leverage ratio of 9.5%.

Special Meeting of Horizon (Page 13)

Horizon plans to hold its special meeting of shareholders on August 30, 2005, at 4:00 p.m., local time, at Horizon, 3707 Richmond Avenue, Houston, Texas. At the meeting you will be asked to approve the merger agreement, the plan of merger and the merger of Horizon into The Frost National Bank, an indirect, wholly owned subsidiary of Cullen/Frost.

You can vote at the Horizon special meeting of shareholders if you owned Horizon common stock at the close of business on July 25, 2005. As of that date, there were 944,966 shares of Horizon common stock outstanding and entitled to vote. You can cast one vote for each share of Horizon common stock that you owned on that date.

Table of Contents**Selected Financial Data of Cullen/Frost (Historical)**

The following consolidated selected financial data is derived from Cullen/Frost and its subsidiaries (collectively referred to as the Corporation) audited financial statements as of and for the five years ended December 31, 2004 and from the Corporation's unaudited quarterly financial statements as of and for the six months ended June 30, 2005 and 2004. The following consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes incorporated by reference into this registration statement. All of the Corporation's acquisitions during the periods presented were accounted for using the purchase method. Accordingly, the operating results of the acquired companies are included with the Corporation's results of operations since their respective dates of acquisition. Dollar amounts are in thousands, except per share data.

	As of or for the Six Months Ended June 30,		As of or for the Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
Consolidated Statements of Income							
Interest income:							
Loans, including fees	\$ 161,032	\$ 115,811	\$ 249,612	\$ 233,463	\$ 265,514	\$ 343,928	\$ 394,073
Securities	66,951	68,170	135,035	125,778	120,221	106,933	109,248
Interest-bearing deposits	51	27	63	104	172	200	331
Federal funds sold and resell agreements	5,149	2,085	8,834	9,601	3,991	9,784	8,488
Total interest income	233,183	186,093	393,544	368,946	389,898	460,845	512,140
Interest expense:							
Deposits	32,157	16,468	39,150	37,406	55,384	118,699	158,858
Federal funds purchased and repurchase agreements	6,268	2,106	5,775	4,059	5,359	12,054	17,889
Junior subordinated deferrable interest debentures	7,142	5,685	12,143	8,735	8,735	8,735	8,735
Subordinated notes payable and other borrowings	3,435	2,260	5,038	4,988	6,647	5,531	4,346
Total interest expense	49,002	26,519	62,106	55,188	76,125	145,019	189,828
Net interest income	184,181	159,574	331,438	313,758	313,773	315,826	322,312
Provision for possible loan losses	4,575	2,500	2,500	10,544	22,546	40,031	14,103
Net interest income after provision for possible loan losses	179,606	157,074	328,938	303,214	291,227	275,795	308,209
Non-interest income:							
Trust fees	28,831	26,811	53,910	47,486	47,463	48,784	49,266
Service charges on deposit accounts	38,829	44,151	87,415	87,805	78,417	70,534	60,627
Insurance commissions and fees	14,803	16,397	30,981	28,660	25,912	18,598	10,698
Other charges, commissions and fees	9,109	9,261	19,353	18,668	16,860	16,176	15,548
Net gain (loss) on securities transactions		(1,739)	(3,377)	40	88	78	4
Other	24,200	18,844	36,828	32,702	32,229	29,547	29,472
Total non-interest income	115,772	113,725	225,110	215,361	200,969	183,717	165,615
Non-interest expense:							
Salaries and wages	80,454	77,615	158,039	146,622	139,227	138,347	133,525
Employee benefits	22,352	21,076	40,176	38,316	34,614	35,000	28,808
Net occupancy	14,752	14,694	29,375	29,286	28,883	29,419	27,693
Furniture and equipment	11,727	11,110	22,771	21,768	22,597	23,727	21,329
Intangible amortization	2,649	2,691	5,346	5,886	7,083	15,127	15,625
Restructuring charges						19,865	
Other	48,003	44,610	89,323	84,157	79,738	78,172	76,832

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Total non-interest expense	179,937	171,796	345,030	326,035	312,142	339,657	303,812
Income from continuing operations before income taxes and cumulative effect of accounting change:	115,441	99,003	209,018	192,540	180,054	119,855	170,012
Income taxes	37,390	31,980	67,693	62,039	57,821	39,749	58,746
Income from continuing operations	78,051	67,023	141,325	130,501	122,233	80,106	111,266
Loss from discontinued operations, net of tax					(5,247)	(2,200)	(2,449)
Cumulative effect of change in accounting for derivatives, net of tax						3,010	
Net income	\$ 78,051	\$ 67,023	\$ 141,325	\$ 130,501	\$ 116,986	\$ 80,916	\$ 108,817

Table of Contents

	As of or for the Six Months Ended June 30,		As of or for the Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
Per Common Share Data:							
Basic:							
Income from continuing operations	\$ 1.51	\$ 1.30	\$ 2.74	\$ 2.54	\$ 2.40	\$ 1.55	\$ 2.13
Net income	1.51	1.30	2.74	2.54	2.29	1.57	2.09
Diluted:							
Income from continuing operations	1.47	1.27	2.66	2.48	2.33	1.50	2.07
Net income	1.47	1.27	2.66	2.48	2.23	1.52	2.03
Cash dividends declared and paid	0.565	0.505	1.035	0.94	0.875	0.84	0.76
Book value	16.81	14.41	15.84	14.87	13.72	11.58	11.14
Common Shares Outstanding:							
Period-end	52,308	51,520	51,924	51,776	51,295	51,355	51,430
Weighted-average shares basic	51,769	51,474	51,651	51,442	51,001	51,530	52,123
Dilutive effect of stock compensation	1,331	1,438	1,489	1,216	1,422	1,818	1,534
Weighted-average shares diluted	53,100	52,912	53,140	52,658	52,423	53,348	53,657
Performance Ratios:							
Return on average assets:							
Income from continuing operations	1.60%	1.42%	1.47%	1.36%	1.46%	1.02%	1.56%
Net income	1.60	1.42	1.47	1.36	1.40	1.03	1.52
Return on average equity:							
Income from continuing operations	18.83	17.49	17.91	17.78	18.77	13.05	20.87
Net income	18.83	17.49	17.91	17.78	17.96	13.18	20.41
Net interest income to average earning assets	4.35	4.03	4.05	3.98	4.58	4.89	5.32
Dividend pay-out ratio	37.66	38.99	38.06	37.15	38.24	53.51	36.35
Balance Sheet Data:							
Period-end:							
Loans	\$ 5,588,662	\$ 4,813,058	\$ 5,164,991	\$ 4,590,746	\$ 4,518,913	\$ 4,518,608	\$ 4,534,645
Earning assets	8,903,098	8,131,520	8,891,859	8,132,479	7,709,980	6,811,284	6,421,753
Total assets	9,950,973	9,570,376	9,952,787	9,672,114	9,536,050	8,375,461	7,665,006
Non-interest-bearing demand deposits	2,999,007	3,130,756	2,969,387	3,143,473	3,229,052	2,669,829	2,118,624
Interest-bearing deposits	5,011,597	4,803,092	5,136,291	4,925,384	4,399,091	4,428,178	4,381,066
Total deposits	8,010,604	7,933,848	8,105,678	8,068,857	7,628,143	7,098,007	6,499,690
Long-term debt and other borrowings	377,563	377,819	377,677	255,845	271,257	284,152	139,307
Shareholders equity	879,176	742,275	822,395	770,004	703,790	594,919	573,026
Average:							
Loans	\$ 5,385,067	\$ 4,711,253	\$ 4,823,198	\$ 4,497,489	\$ 4,536,999	\$ 4,546,596	\$ 4,352,868
Earning assets	8,681,552	8,118,029	8,352,334	8,011,081	6,961,439	6,564,678	6,148,154
Total assets	9,810,050	9,470,363	9,618,849	9,583,829	8,353,145	7,841,823	7,154,300
Non-interest-bearing demand deposits	2,882,478	2,909,804	2,914,520	3,037,724	2,540,432	2,186,690	1,897,172
Interest-bearing deposits	5,031,623	4,746,817	4,852,166	4,539,622	4,353,878	4,364,667	4,154,498
Total deposits	7,914,101	7,656,621	7,766,686	7,577,346	6,894,310	6,551,357	6,051,670
Long-term debt and other borrowings	377,618	348,855	363,386	264,428	275,136	200,166	170,105
Shareholders equity	835,732	770,741	789,073	733,994	651,273	614,010	533,125
Asset Quality:							
Allowance for possible loan losses	\$ 77,103	\$ 80,485	\$ 75,810	\$ 83,501	\$ 82,584	\$ 72,881	\$ 63,265
Allowance for possible loan losses to period-end loans	1.38%	1.67%	1.47%	1.82%	1.83%	1.61%	1.40%
Net loan charge-offs	\$ 3,282	\$ 5,516	\$ 10,191	\$ 9,627	\$ 12,843	\$ 30,415	\$ 9,183
Net loan charge-offs to average loans	0.12%	0.23%	0.20%	0.21%	0.28%	0.67%	0.21%
Non-performing assets	\$ 41,335	\$ 46,198	\$ 39,116	\$ 52,794	\$ 42,908	\$ 37,430	\$ 18,933
Non-performing assets to:							
Total loans plus foreclosed assets	0.74%	0.96%	0.76%	1.15%	0.95%	0.83%	0.42%
Total assets	0.42	0.48	0.39	0.55	0.45	0.45	0.25
Consolidated Capital Ratios:							
Tier 1 risk-based capital ratio	12.84%	13.08%	12.83%	11.41%	10.46%	10.14%	10.08%
Total risk-based capital ratio	15.82	16.52	15.99	15.01	14.16	13.98	11.24

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Leverage ratio	10.06	9.12	9.18	7.83	7.25	7.21	7.54
Average shareholders equity to average total assets	8.52	8.14	8.20	7.66	7.80	7.83	7.45

Table of Contents

RISK FACTORS

*In addition to the other information contained in or incorporated by reference into this proxy statement-prospectus, including the matters addressed under the heading **Forward-Looking Statements** beginning on page 70, you should carefully consider the following risk factors in deciding how to vote on the merger agreement, the plan of merger and the merger.*

The Price of Cullen/Frost Common Stock May Decrease Before and After the Merger, Which Would in Certain Cases Decrease the Market Value of the Merger Consideration Received by Horizon Stockholders.

On April 18, 2005, the day before the merger was announced, the per share closing price for Cullen/Frost common stock on the New York Stock Exchange, or NYSE, was \$44.43. On July 26, 2005, the most recent practicable date before the mailing of this document, the closing price was \$49.44. The price of Cullen/Frost common stock may decrease before the merger is completed. The amount of cash or stock that a Horizon shareholder will receive will be determined based upon the average of the last reported per share sales price of Cullen/Frost common stock on the New York Stock Exchange for each of the ten full consecutive NYSE trading days ending on the day before the merger is completed. A decrease in the stock price over the ten-trading-day period immediately prior to the merger's closing date to below \$43.74 would in certain cases result in a reduction in the fixed amount of the per share cash consideration to be received by Horizon shareholders.

In addition, fluctuations in the price of Cullen/Frost stock will occur after completion of the merger. The trading price of Cullen/Frost stock received by a Horizon shareholder in connection with the merger, therefore, could be lower than the trading price of Cullen/Frost stock on the closing date of the merger. Cullen/Frost's stock price changes may result from a variety of factors, including general market and economic conditions, changes in our businesses, operations and prospects and regulatory considerations. Many of these factors are beyond our control. Because the date the merger is completed will be later than the date of the meeting, at the time of your shareholders' meeting, you will not necessarily know the market value of Cullen/Frost common stock that Horizon shareholders will receive upon completion of the merger.

Stockholders May Receive a Form of Consideration Different From What They Elect.

While each Horizon shareholder may elect to receive all cash or all Cullen/Frost stock in the merger, the pools of cash and Cullen/Frost stock available for the Horizon shareholders will be fixed at the time of the closing. As a result, if more Horizon shareholders elect to receive cash or stock than the fixed amounts, and you choose the election that is oversubscribed, you might receive a portion of your consideration in cash and a portion of your consideration in Cullen/Frost stock.

If the Aggregate Amount of the Special Dividend that Horizon May Pay and the Total Merger Consideration is Less than Certain Pre-Agreed Levels, and Cullen/Frost Does Not Elect to Increase the Total Consideration, Horizon May Terminate the Merger Agreement.

Under the merger agreement, if the sum of the total merger consideration and the special dividend that Horizon may declare is less than \$105,000,000, Horizon can terminate the merger agreement as long as Cullen/Frost does not exercise its option to increase the total merger consideration by increasing the aggregate amount of cash consideration.

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As a result, even if the merger agreement, the plan of merger and the merger are approved by Horizon's shareholders, the merger may not ultimately be completed. Although the Cullen/Frost board has the ability to increase the total merger consideration and the Horizon board has the power to terminate the merger agreement and abandon the merger if the condition discussed above does not occur, there is no obligation of either board to exercise such powers.

Table of Contents

Regulatory Approvals May Not Be Received, May Take Longer than Expected or Impose Conditions Which Are Not Presently Anticipated.

The merger must be approved by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Texas Department of Banking. The Federal Reserve and the Office of the Comptroller of the Currency will consider, among other factors, the competitive impact of the merger, the financial and managerial resources of our companies and their subsidiary banks and the convenience and needs of the communities to be served. As part of that consideration, we expect that the Federal Reserve and the Office of the Comptroller of the Currency will review capital position, safety and soundness, and legal and regulatory compliance, including compliance with anti-money laundering laws.

There can be no assurance as to whether this and other regulatory approvals will be received, the timing of those approvals, or whether any conditions will be imposed.

The merger agreement permits Cullen/Frost to make acquisitions and dispositions and to issue capital stock in connection therewith if such transactions do not present a material risk that the completion of the merger will be materially delayed or that any required regulatory approvals will be materially more difficult to obtain.

The Merger Agreement Limits Horizon's Ability to Pursue Alternatives to the Merger.

The merger agreement contains provisions that limit Horizon's ability to discuss competing third-party proposals to acquire all or a significant part of Horizon. These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of Horizon from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire Horizon than it might otherwise have proposed to pay.

HORIZON SPECIAL MEETING

This section contains information from Horizon for Horizon shareholders about the special meeting Horizon has called to consider and approve the merger agreement, the plan of merger contained in the merger agreement and the merger. We are mailing this proxy statement-prospectus to you, as a Horizon shareholder, on or about July 29, 2005. Together with this proxy statement-prospectus, if you are not subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, we are also sending to you a notice of the Horizon special meeting and a form of white proxy card that our board is soliciting for use at the special meeting of Horizon shareholders not subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement and at any adjournments or postponements of the meeting. The special meeting will be held on August 30, 2005, at 4:00 p.m. local time, at Horizon, 3707 Richmond Avenue, Houston, Texas. If you are subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement, the voting representative is calling a voting meeting of the parties to that agreement and, together with this proxy statement-prospectus, we are sending you a blue proxy card that the voting representative is soliciting for use at the special meeting. The voting meeting will be held on August 30, 2005 at 3:30 p.m. local time, at Horizon, 3707 Richmond Avenue, Houston, Texas.

This proxy statement-prospectus is also being furnished by Cullen/Frost to Horizon shareholders as a prospectus in connection with the issuance by Cullen/Frost of shares of Cullen/Frost common stock upon consummation of the merger.

Matters To Be Considered

The only matter to be considered at the Horizon special meeting is the approval of the merger agreement, the plan of merger and the merger. You may also be asked to vote upon a proposal to adjourn or postpone the special meeting. Horizon could use any adjournment or postponement of the special meeting for the purpose, among others, of allowing more time to solicit votes to approve the merger agreement, the plan of merger and the merger.

Table of Contents

Record Date

The Horizon board has fixed the close of business on July 25, 2005, as the record date for determining the Horizon shareholders entitled to receive notice of and to vote at the special meeting. Only Horizon shareholders of record as of the record date are entitled to notice of and to vote at the special meeting. As of the record date, 944,966 shares of Horizon common stock were issued and outstanding and held by approximately 345 record holders. Horizon shareholders are entitled to one vote on each matter considered and voted on at the special meeting for each share of Horizon common stock held of record at the close of business on the record date. The presence, in person or by properly executed proxy, of the holders of a majority of the shares of Horizon common stock entitled to vote at the special meeting is necessary to constitute a quorum at the special meeting. For purposes of determining the presence of a quorum, abstentions will be counted as shares present but shares represented by a proxy from a broker or nominee indicating that such person has not received instructions from the beneficial owner or other person entitled to vote the shares, which we refer to as "broker non-votes", will not be counted as shares present. Neither abstentions nor broker non-votes will be counted as votes cast for purposes of determining whether a proposal has received sufficient votes for approval.

Action Required

Approval of the merger agreement, the plan of merger and the merger requires the affirmative vote of the Horizon shareholders of at least 66²/₃% of the outstanding shares of Horizon common stock. The merger agreement and the consummation of the transactions contemplated therein will not require the approval of the holders of Cullen/Frost common stock under the Texas Business Corporation Act, or the TBCA, or the rules of the NYSE.

857,551 shares (or approximately 91% of the outstanding shares) of Horizon common stock are subject to the terms of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. All of the shares of Horizon common stock subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement will be voted by the voting representative for or against the merger agreement, the plan of merger and the merger in the same proportion as he receives for or against directions.

Shareholders with shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement are also being asked to consent in writing to the termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement by means of voting for Item 2 on the blue proxy card. The consent of Horizon shareholders representing at least 65% of the shares of Horizon common stock (or 557,409 shares) subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement is required to terminate the Bay Area Bank and Trust Voting and Stock Restriction Agreement. See "The Merger Agreement - Termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement".

As of the record date, Horizon directors and executive officers and their affiliates held 370,178 shares (or approximately 39.2% of the outstanding shares) of Horizon common stock entitled to vote at the special meeting excluding shares attributable to Mr. Thetford as a result of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. There are 85,658 shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement that Mr. Thetford is deemed to beneficially own. All of the directors holding shares of Horizon common stock have signed voting agreements with Cullen/Frost agreeing to vote for the merger and to consent to termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. 33.2% of the shares of Horizon common stock are subject to voting agreements to vote in favor of the transaction.

As of the record date, Cullen/Frost held no shares of Horizon common stock and none of its directors and executive officers or their affiliates held any shares of Horizon common stock. See "The Merger - Interests of Certain Persons in the Merger".

Solicitation Shareholders Who Are Party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement

Proxies are being solicited by the voting representative under the Bay Area Bank and Trust Voting and Stock Restriction Agreement from Horizon shareholders who are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement. As indicated above, all of the shares of Horizon common stock subject to the

Table of Contents

shareholders agreement will be voted by the voting representative for or against the merger agreement, the plan of merger and the merger in the same proportion as he receives for or against directions on the blue proxy card. If no instructions are indicated, the blue proxy card provides that the shareholder will be deemed to instruct the voting representative to vote FOR approval of the merger agreement, the plan of merger and the merger, FOR termination the Bay Area Bank and Trust Voting and Stock Restriction Agreement effective immediately prior to the effectiveness of the merger and in the discretion of the voting representative as to any other matter that may come before the special meeting including, among other things, a motion to adjourn or postpone the special meeting to another time and/or place, for the purpose of soliciting additional proxies or otherwise.

Solicitation Shareholders Who Are Not a Party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement

Proxies are being solicited by the Horizon board from Horizon shareholders who are not parties to the Bay Area Bank and Trust Voting and Stock Restriction Agreement. Shares of Horizon common stock represented by properly executed white proxies, and which have not been revoked, will be voted in accordance with the instructions indicated on the white proxies. If no instructions are indicated, such proxies will be voted FOR approval of the merger agreement, the plan of merger and the merger and in the discretion of the individuals named as proxies as to any other matter that may come before the special meeting including, among other things, a motion to adjourn or postpone the special meeting to another time and/or place, for the purpose of soliciting additional proxies or otherwise. However, no proxy which is voted against the proposal to approve the merger agreement, the plan of merger and the merger will be voted in favor of any such adjournment or postponement.

Proxies

A Horizon shareholder who is not a party to the Bay Area Bank and Trust Voting Agreement and Stock Restriction Agreement and has given a proxy may revoke it at any time prior to its exercise at the special meeting by (i) giving written notice of revocation to Jack L. Thetford, Chairman of the Board of Horizon or (ii) properly submitting to Horizon a duly executed proxy bearing a later date. All written notices of revocation and other communications with respect to revocation of proxies should be addressed to Horizon as follows: 1021 Main Street, Suite 100, Houston, Texas 77002, Attention: Jack L. Thetford, Chairman of the Board.

Proxies given by Horizon shareholders who are a party to the Bay Area Bank and Trust Voting and Stock Restriction Agreement may be revoked at any time prior to the voting meeting by written notice to the voting representative or by executing and delivering to the voting representative a proxy bearing a later date.

Consent

The voting representative is calling a meeting of the parties to the Bay Area Bank and Trust Voting and Stock Restriction Agreement for the purpose of directing the voting representative's vote of the Horizon common stock subject to such agreement. These shareholders are being asked to indicate their approval of or opposition to the proposal to approve the merger agreement, the plan of the merger and the merger, which proposal is to be considered at the special meeting. The voting representative will vote all of the shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement for or against the merger agreement, the plan of merger and the merger in the same proportion as he receives for or against directions on the blue proxy cards.

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In addition, Horizon shareholders subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement are being asked to consent to the termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. The consent of Horizon shareholders representing at least 65% of the shares of Horizon common stock (or 557,409 shares) subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement is required to terminate the Bay Area Bank and Trust Voting and Stock Restriction Agreement. Termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement is not a condition to the consummation of the merger. See The Merger Agreement Termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement .

Table of Contents

Recommendation of Horizon's Board

The Horizon board has unanimously adopted the merger agreement, the plan of merger and the merger. The Horizon board believes that these items and the transactions they contemplate are in the best interests of Horizon and its shareholders and that the aggregate merger consideration is fair to Horizon shareholders, and unanimously recommends that Horizon shareholders vote FOR approval of the merger agreement, the plan of merger and the merger.

See Recommendation of Horizon's Board and Its Reasons for the Merger beginning on page 18 for a more detailed discussion of the Horizon board's recommendation with regard to the merger agreement, the plan of merger and the merger.

Table of Contents

THE MERGER

The following discussion describes certain material information about the merger. We urge you to read carefully this entire document, including the merger agreement and the financial advisor opinion attached as Appendices to this document, for a more complete understanding of the merger.

Horizon's board of directors has adopted the merger agreement, including the plan of merger contained therein, and the merger. The merger agreement provides for combining our companies through the merger of Horizon with and into a newly formed, wholly owned bank subsidiary of Cullen/Frost, with the bank subsidiary as the surviving corporation. The separate existence of Horizon will terminate. Immediately following the merger, the capital stock of the bank subsidiary will be contributed to a wholly owned, bank holding company subsidiary of Cullen/Frost. Immediately following the contribution, the bank subsidiary will merge with and into The Frost National Bank, an indirect wholly owned subsidiary of Cullen/Frost.

Horizon shareholders will be entitled to elect to receive upon completion of the merger shares of Cullen/Frost common stock or cash, subject to potential proration and adjustment, for each share of Horizon common stock. Shares of Cullen/Frost common stock issued and outstanding at the completion of the merger will remain outstanding and those stock certificates will be unaffected by the merger. Cullen/Frost's common stock will continue to trade on the NYSE under the Cullen/Frost Bankers, Inc. name with the symbol "CFR" following the merger.

Please see "The Merger Agreement" beginning on page 32 for additional and more detailed information regarding the legal documents that govern the merger, including information about the conditions to the merger and the provisions for terminating or amending the merger agreement.

Background of the Merger

During the last several years, there have been significant developments in the banking and financial services industry. These developments have included the increased emphasis and dependence on automation, specialization of products and services, increased competition from other financial institutions and a trend toward consolidation and geographic expansion, coupled with a relaxation of regulatory restrictions on interstate conduct of the business of financial institutions.

Mindful of these factors, the board of directors and management of Horizon have periodically reviewed and updated strategic plans for Horizon. As part of this ongoing process, Horizon has historically received inquiries regarding its willingness to consider an acquisition by, or affiliation with, larger financial institutions. Consistent with its fiduciary obligations to its shareholders, Horizon has considered such inquiries and evaluated them with respect to the level and form of consideration proposed, and the seriousness and specificity that has been conveyed to Horizon in terms of consideration, as well as the expected future operation of Horizon, and other considerations and factors deemed relevant by Horizon, in formulating its business plan with the intent to provide maximum value to its shareholders. As the nature of banking has become increasingly competitive, larger organizations have demonstrated a willingness to pay for a premium franchise in a high-growth market, such as Houston. In considering the market conditions, Horizon felt it was necessary to consult with investment banking firms experienced in the area of financial institution mergers and acquisitions to evaluate the prospects of potentially accomplishing a transaction that would both maximize shareholder value and continue to provide its customers with quality products and services.

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Based upon deliberations by the board of directors of Horizon in October 2004 regarding the cost of providing the increasingly broad array of financial products and alternative delivery channels to remain competitive in the marketplace and to continue to deliver exceptional service to its customers, while still providing superior returns to its shareholders, the board of directors retained Hovde Financial LLC to assist and advise Horizon in exploring a merger with a larger financial institution that would satisfy these objectives.

Table of Contents

Subsequently, Hovde contacted those financial institutions that it believed might meet the criteria for such a transaction with Horizon. In November 2004, these institutions were provided information (pursuant to a confidentiality agreement) and various levels of discussions were held with each regarding the potential for a suitable transaction between such institution and Horizon. Thereafter, certain of these institutions were asked to convey to Horizon and its representative their interest in pursuing a transaction with Horizon. After receipt of these indications of interest, and giving careful consideration to the entirety of the proposals, including the consideration proposed to be paid in connection with the transaction (and the form and characteristics thereof), Horizon selected Cullen/Frost and one other party to continue with the process and perform a more detailed due diligence on Horizon. The other party proceeded first, conducting due diligence over several days in January. However, after several meetings with this party, Horizon believed its overall objectives were more likely to be achieved by pursuing further discussions with Cullen/Frost. Horizon ceased discussions with the other party and Cullen/Frost began its due diligence during February 2005, submitting its final indication in early March 2005.

As a result of this process, Horizon and Cullen/Frost commenced extensive negotiations throughout March and April 2005.

During this time period, Cullen/Frost completed its due diligence evaluation and the merger agreement was negotiated and finalized. On March 30, 2005, representatives of Hovde presented the final material terms memorialized in the definitive agreement to the board of Horizon. At this meeting, Hovde provided a summary of all the financial and social terms of the transaction, comparable transaction analysis, discounted cash flow analysis, and detailed the financial implications the transaction would have on the pro forma combined company from an earnings per share and tangible book value per share perspective. Furthermore, at this meeting, Hovde indicated that it was prepared to issue a fairness opinion stating that the merger consideration was fair to the shareholders of Horizon from a financial point of view.

Following Hovde's presentation, the Horizon board considered carefully Hovde's opinion as well Hovde's experience, qualifications and interests in the transaction. On March 30, 2005, the board of directors of Horizon then unanimously approved the transaction and authorized management to execute and deliver the merger agreement. After the completion of further negotiations on the merger agreement and the completion of final due diligence, Horizon and Cullen/Frost then executed the merger agreement on April 19, 2005.

The aggregate consideration to be paid to holders of Horizon common stock resulted from negotiations that considered the historical earnings and dividends of Cullen/Frost and Horizon; the potential growth in Horizon's market and earnings, both as an independent entity and as a part of a larger organization such as Cullen/Frost; Horizon's asset quality; and the effect of the merger on the shareholders, customers, and employees of Horizon.

Recommendation of Horizon's Board and Its Reasons for the Merger

After careful consideration, at its meeting on March 30, 2005, Horizon's board determined that the merger agreement, the plan of merger, and the merger are in the best interests of Horizon and its shareholders and that the aggregate merger consideration is fair to the Horizon shareholders. Accordingly, Horizon's board, by a unanimous vote of the directors present, adopted the merger agreement, the plan of merger and the merger and unanimously recommends that Horizon shareholders vote FOR approval of these items.

Horizon's Reasons for the Merger

In approving the merger, the directors of Horizon considered a number of factors:

the financial terms of the merger, including the relationship of the merger consideration to be received by the shareholders of Horizon to the book value of Horizon common stock;

the fact that shareholders of Horizon will receive part of the merger consideration in shares of Cullen/Frost common stock, which is publicly traded on the New York Stock Exchange, contrasted to the absence of a public market for Horizon common stock;

Table of Contents

the opinion rendered by Hovde that from a financial standpoint the exchange of Horizon common shares for cash and Cullen/Frost common shares on the terms and conditions set forth in the merger agreement is fair to the shareholders of Horizon;

the growth of Horizon without the affiliation with a larger holding company which would likely be limited because of Horizon's need for increased capital resources to support growth;

the treatment of the merger as a tax-free exchange for federal income tax purposes with respect to the Horizon common shares exchanged for Cullen/Frost common shares;

affiliation with a larger holding company would provide the opportunity to realize economies of scale, increase efficiencies of operations, and enhance the development of new products and services;

potential benefits and opportunities for employees of Horizon, as a result of both employment opportunities and benefit plans in a larger organization; and

the likelihood of the merger being approved by applicable regulatory authorities without undue conditions or delay.

The reasons set out above for the merger are not intended to be exhaustive but include all material factors considered by Horizon's board of directors in approving the merger. In reaching its determination, the Horizon board of directors did not assign any relative or specific weights to different factors, and individual directors may have given different weights to different factors. Based on the reasons stated, the board felt that the merger was in the best interest of Horizon and its shareholders, therefore the board of directors of Horizon unanimously approved the merger. Each member of the Horizon board of directors has agreed to vote the stock of Horizon over which they have voting authority in favor of the merger agreement, the plan of merger and the merger.

The Horizon board of directors unanimously recommends that the Horizon shareholders vote in favor of the merger and the merger agreement.

Opinion of Horizon's Financial Advisor

Hovde Financial has delivered to the board of directors of Horizon its opinion that, based upon and subject to the various considerations set forth in its written opinion dated April 19, 2005, the total transaction consideration to be paid to the shareholders of Horizon is fair from a financial point of view as of such date. In requesting Hovde Financial's advice and opinion, no limitations were imposed by Horizon upon Hovde Financial with respect to the investigations made or procedures followed by it in rendering its opinion. **The full text of the opinion of Hovde, dated April 19, 2005, which describes the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached hereto as Appendix C. The shareholders of Horizon should read this opinion in its entirety.**

Hovde Financial is a nationally recognized investment banking firm and, as part of its investment banking business, is continually engaged in the valuation of financial institutions in connection with mergers and acquisitions, private placements and valuations for other purposes. As a specialist in securities of financial institutions, Hovde Financial has experience in, and knowledge of, banks, thrifts and bank and thrift holding companies. The board of directors of Horizon selected Hovde Financial to act as its financial advisor in connection with the merger on the basis of the firm's reputation and expertise in transactions such as the merger.

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Hovde Financial received a fee from Horizon for performing a financial analysis of the merger and rendering a written opinion to the board of directors of Horizon as to the fairness, from a financial point of view, of the merger to the shareholders of Horizon. Hovde Financial received its fee subsequent to Hovde Financial's presentation of its fairness opinion and analysis to the board of directors of Horizon. Horizon has also agreed to indemnify Hovde Financial against any claims, losses and expenses arising out of the merger or Hovde Financial's engagement that did not arise from Hovde Financial's gross negligence or willful misconduct.

Table of Contents

Hovde Financial's opinion is directed only to the fairness, from a financial point of view, of the total transaction consideration, and, as such, does not constitute a recommendation to any shareholder of Horizon as to how the shareholder should vote at the Horizon special meeting. The summary of the opinion of Hovde Financial set forth in this proxy statement-prospectus is qualified in its entirety by reference to the full text of the opinion.

The following is a summary of the analyses performed by Hovde Financial in connection with its fairness opinion. Certain of these analyses were confirmed in a presentation to the board of directors of Horizon by Hovde Financial. The summary set forth below does not purport to be a complete description of either the analyses performed by Hovde Financial in rendering its opinion or the presentation delivered by Hovde Financial to the board of directors of Horizon, but it does summarize all of the material analyses performed and presented by Hovde Financial.

The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances. In arriving at its opinion, Hovde Financial did not attribute any particular weight to any analysis and factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Hovde Financial believes that its analyses and the following summary must be considered as a whole and that selecting portions of its analyses, without considering all factors and analyses, could create an incomplete view of the process underlying the analyses set forth in its report to the board of directors of Horizon and its fairness opinion.

In performing its analyses, Hovde Financial made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Horizon and Cullen/Frost. The analyses performed by Hovde Financial are not necessarily indicative of actual value or actual future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as part of Hovde Financial's analysis of the fairness of the transaction consideration, from a financial point of view, to the shareholders of Horizon. The analyses do not purport to be an appraisal or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at the present time or at any time in the future. Hovde Financial's opinion does not address the relative merits of the merger as compared to any other business combination in which Horizon might engage. In addition, as described above, Hovde Financial's opinion to the board of directors of Horizon was one of many factors taken into consideration by the board of directors of Horizon in making its determination to approve the merger agreement.

During the course of its engagement, and as a basis for arriving at its opinion, Hovde Financial reviewed and analyzed material bearing upon the financial and operating conditions of Horizon and Cullen/Frost and material prepared in connection with the merger, including, among other things, the following:

the merger agreement;

certain historical publicly available information concerning Horizon and Cullen/Frost;

certain internal financial statements and other financial and operating data concerning Horizon;

certain financial projections prepared by the management of Horizon;

certain other information provided to Hovde Financial by members of the senior management of Horizon for the purpose of reviewing the future prospects of Horizon and Cullen/Frost;

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historical market prices and trading volumes for Cullen/Frost common stock;

the nature and terms of recent merger and acquisition transactions to the extent publicly available, involving banks, thrifts and bank and thrift holding companies that it considered relevant;

the pro forma ownership of Cullen/Frost's common stock by the shareholders of Horizon relative to the pro forma contribution of Horizon's assets, liabilities, equity and earnings to the combined company;

Table of Contents

the pro forma impact of the merger on the combined company's earnings per share, consolidated capitalization and financial ratios; and such other information and factors as we have deemed appropriate.

Hovde Financial also took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its knowledge of the commercial banking industry and its general experience in securities valuations.

In rendering its opinion, Hovde Financial assumed, without independent verification, the accuracy and completeness of the financial and other information and relied upon the accuracy of the representations of the parties contained in the merger agreement. Hovde Financial also assumed that the financial forecasts furnished to or discussed with Hovde Financial by Horizon were reasonably prepared and reflected the best currently available estimates and judgments of senior management of Horizon as to the future financial performance of Horizon. Hovde Financial has not made any independent evaluation or appraisal of any properties, assets or liabilities of Horizon or Cullen/Frost. Hovde Financial assumed and relied upon the accuracy and completeness of the publicly available and other non-public financial information provided to it by Horizon, relied upon the representations and warranties of Horizon and Cullen/Frost made pursuant to the merger agreement, and did not independently attempt to verify any of such information.

Analysis of Selected Mergers. As part of its analysis, Hovde Financial reviewed three groups of comparable merger transactions. The first peer group included transactions, which have occurred since January 1, 2004, that involved target banks in the entire United States that had total assets between \$250 million and \$500 million as well as a Return on Average Assets between 0.50% and 1.50% (the Nationwide Merger Group). This Nationwide Merger Group consisted of the following 19 transactions:

<u>BUYER</u>	<u>SELLER</u>
First Citizens Bancorp. (SC)	Summit Financial Corp. (SC)
Pacific Capital Bancorp (CA)	First Bancshares Inc. (CA)
Fulton Financial Corp. (PA)	SVB Financial Services Inc. (NJ)
City Holding Co. (WV)	Classic Bancshares Inc. (KY)
Centennial Bank Holdings Inc. (CO)	First Mainstreet Financial (CO)
Sky Financial Group Inc. (OH)	Belmont Bancorp. (OH)
Valley National Bancorp (NJ)	Shrewsbury Bancorp (NJ)
Seacoast Banking Corp. of FL (FL)	Century National Bank (FL)
South Financial Group Inc. (SC)	Pointe Financial Corp. (FL)
Wintrust Financial Corp. (IL)	Antioch Holding Company (IL)
Whitney Holding Corp. (LA)	Destin Bancshares Inc. (FL)
IBERIABANK Corp. (LA)	American Horizons Bancorp Inc (LA)
Placer Sierra Bancshares (CA)	First Financial Bancorp (CA)
Fulton Financial Corp. (PA)	First Washington Financial Corp (NJ)
Wintrust Financial Corp. (IL)	Northview Financial Corp. (IL)
F.N.B. Corp. (PA)	Slippery Rock Financial Corp. (PA)
Sun Bancorp Inc. (NJ)	Community Bancorp of NJ (NJ)
Heartland Financial USA Inc. (IA)	Rocky Mountain Bancorp. Inc. (MT)
Community Bank System Inc. (NY)	First Heritage Bank (PA)

Table of Contents

Hovde Financial also reviewed comparable mergers involving banks headquartered in the Southern United States (TX, LA, MS, AL, GA, FL, TN, SC, NC, VA) announced since January 1, 2003, in which the total assets of the seller were between \$200 million and \$600 million (the Southern Merger Group). This Southern Merger Group consisted of the following 27 transactions:

<u>BUYER</u>	<u>SELLER</u>
First Citizens Bancorp. (SC)	Summit Financial Corp. (SC)
Capital City Bank Group Inc. (FL)	First Alachua Banking Corp. (FL)
Franklin Bank Corp. (TX)	First National Bank of Athens (TX)
Seacoast Banking Corp. of FL (FL)	Century National Bank (FL)
South Financial Group Inc. (SC)	Pointe Financial Corp. (FL)
Whitney Holding Corp. (LA)	Destin Bancshares Inc. (FL)
IBERIABANK Corp. (LA)	American Horizons Bancorp Inc (LA)
Wells Fargo & Co. (CA)	First Community Capital Corp. (TX)
Peoples Holding Co. (MS)	Heritage Financial Hldg Corp (AL)
Southwest Bancorp. of Texas (TX)	Klein Bancshares Inc. (TX)
Capital City Bank Group Inc. (FL)	Farmers & Merchants Bank (GA)
Texas United Bancshares Inc. (TX)	GNB Bancshares Inc. (TX)
State National Bancshares Inc. (TX)	Mercantile Bank Texas (TX)
Whitney Holding Corp. (LA)	Madison Bancshares Inc. (FL)
Peoples Holding Co. (MS)	Renasant Bancshares Inc. (TN)
Synovus Financial Corp. (GA)	Trust One Bank (TN)
NBC Capital Corp. (MS)	Enterprise Bancshares Inc. (TN)
Southwest Bancorp. of Texas (TX)	Reunion Bancshares Inc. (TX)
TowneBank (VA)	Harbor Bank (VA)
Alabama National BanCorp. (AL)	Indian River Banking Co. (FL)
Synovus Financial Corp. (GA)	Peoples Florida Banking Corp (FL)
CNB Holdings Inc. (GA)	First Capital Bancorp Inc. (GA)
Southern Community Financial (NC)	Community Bank (NC)
Prosperity Bancshares Inc. (TX)	MainBancorp Inc. (TX)
BancTrust Financial Group Inc. (AL)	CommerceSouth Inc. (AL)
Southwest Bancorp. of Texas (TX)	Maxim Financial Holdings Inc. (TX)
United Community Banks Inc. (GA)	First Georgia Holding Inc. (GA)

Hovde Financial then reviewed comparable mergers involving banks headquartered in Texas that have announced since January 1, 2003, in which the total assets of the seller were between \$100 million and \$1 billion (the Texas Merger Group). This Texas Merger Group consisted of the following 15 transactions:

<u>BUYER</u>	<u>SELLER</u>
Franklin Bank Corp. (TX)	First National Bank of Athens (TX)
First Financial Bankshares (TX)	Clyde Financial Corporation (TX)
Franklin Bank Corp. (TX)	Cedar Creek Bancshares Inc. (TX)
Wells Fargo & Co. (CA)	First Community Capital Corp. (TX)
MidSouth Bancorp Inc. (LA)	Lamar Bancshares Inc. (TX)
Southwest Bancorp. of Texas (TX)	Klein Bancshares Inc. (TX)
Texas United Bancshares Inc. (TX)	GNB Bancshares Inc. (TX)
State National Bancshares Inc. (TX)	Mercantile Bank Texas (TX)
Happy Bancshares Inc. (TX)	Sun Banc Corporation (TX)
Southwest Bancorp. of Texas (TX)	Reunion Bancshares Inc. (TX)
Investor group (TX)	Snyder National Bank (TX)

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Adam Corporation Group (TX)
Prosperity Bancshares Inc. (TX)
Inwood Bancshares Inc. (TX)
Southwest Bancorp. of Texas (TX)

Beltline Bancshares Inc. (TX)
MainBancorp Inc. (TX)
WB&T Bancshares Inc. (TX)
Maxim Financial Holdings Inc. (TX)

Table of Contents

Hovde Financial calculated the medians and averages of the following relevant transaction ratios in the Nationwide Merger Group, the Southern Merger Group and the Texas Merger Group: the percentage of the offer value to the acquired company's total assets, the multiple of the offer value to the acquired company's tangible book value; the multiple of the offer value to the acquired company's earnings for the twelve months preceding the announcement date of the transaction; and the tangible book value premium to core deposits. Hovde Financial compared these multiples with the corresponding multiples for the merger, valuing the total consideration that would be received pursuant to the merger agreement at approximately \$112.4 million (\$64 million in consideration in the form of Cullen/Frost's stock, \$45 million in cash, and approximately \$4 million in special dividend and employee options consideration), or \$118.98 per Horizon diluted share. In calculating the multiples for the merger, Hovde Financial used Horizon's earnings for the twelve months ended December 31, 2004, and Horizon's tangible book value per share, total assets, and total deposits as of December 31, 2004. The results of this analysis are as follows:

	Offer Value to			Ratio of Tangible Book Value Premium to Core Deposits (%)
	Total Assets (%)	Tangible Book Value (x)	12 months Preceding Earnings (x)	
Horizon Capital Bank	29.59	3.30	33.6	31.3
Nationwide Merger Group median	22.76	2.58	24.6	20.5
Nationwide Merger Group average	22.23	2.76	25.2	20.5
Southern Merger Group median	24.39	2.89	26.3	21.4
Southern Merger Group average	24.20	3.07	29.7	23.6
Texas Merger Group median	21.42	2.23	23.6	15.6
Texas Merger Group average	21.19	2.55	27.2	16.3

Discounted Cash Flow Analysis. Hovde Financial estimated the present value of all shares of Horizon common stock by estimating the value of Horizon's estimated future earnings stream beginning in 2005. Reflecting Horizon's internal projections and Hovde Financial estimates, Hovde Financial assumed net income in 2005, 2006, 2007, 2008, and 2009 of \$4.11 million, \$4.73 million, \$5.43 million, \$6.25 million, and \$7.19 million, respectively. The present value of these earnings was calculated based on a range of discount rates of 9.0%, 10.0%, 11.0%, 12.0%, and 13.0%, respectively. In order to derive the terminal value of Horizon's earnings stream beyond 2009, Hovde Financial assumed a terminal value based on a multiple of between 18.0x and 22.0x applied to free cash flows in 2009. The present value of this terminal amount was then calculated based on the range of discount rates mentioned above. These rates and values were chosen to reflect different assumptions regarding the required rates of return of holders or prospective buyers of Horizon common stock. This analysis and its underlying assumptions yielded a range of value for all the shares of Horizon stock of approximately \$84.6 million (at a 13.0% discount rate and a 18.0x terminal multiple) to \$122.1 million (at a 9.0% discount rate and a 22.0x terminal multiple) with a midpoint of \$102.0 (using a 11.0% discount rate and a 20.0x terminal multiple), compared to total merger consideration of \$112.4 million.

Table of Contents

Contribution Analysis. Hovde Financial prepared a contribution analysis showing percentages of total assets, total net loans, total deposits, total equity and tangible equity at December 31, 2004 for Horizon and for Cullen/Frost, as well as the actual twelve months preceding earnings on a GAAP and cash basis and estimated fiscal year 2005 GAAP and cash earnings that would be contributed to the combined company on a pro-forma basis by Horizon and Cullen/Frost. This analysis indicated that holders of Horizon common stock would own approximately 2.6% of the pro forma common shares outstanding of Cullen/Frost, assuming an exchange ratio of 1.525 for the stock consideration portion, while contributing a median of 3.7% of the financial components listed above. This pro forma ownership is based on the total consideration being paid to Horizon consisting of 59% of Cullen/Frost common stock and 41% in cash; therefore, if pro forma ownership of 2.6% is divided by the percentage of stock (59%), the resulting value is 4.3%.

	Horizon
	Contribution To Cullen/Frost
Total assets	3.7%
Total net loans	5.5%
Total deposits	3.4%
Total equity	4.4%
Total tangible equity	5.1%
Net income LTM GAAP Basis	2.3%
Net income LTM Cash Basis	2.2%
Net income estimated fiscal year 2005 GAAP Basis	2.4%
Net income estimated fiscal year 2005 Cash Basis	2.3%
Median Horizon Contribution Percentage	3.7%
Actual Horizon Pro Forma Ownership	2.6%
Horizon Pro Forma Ownership adjusted for cash component	4.3%

Financial Implications to Horizon Shareholders. Hovde Financial prepared an analysis of the financial implications of Cullen/Frost's offer to a holder of Horizon common stock who receives 100% Cullen/Frost common stock. This analysis indicated that on a pro forma equivalent basis, assuming the exchange ratio of 1.525 for the stock consideration portion of the total consideration and excluding any potential revenue enhancement opportunities, a stockholder of Horizon would achieve approximately 7.06% accretion in GAAP earnings per share, approximately 9.48% accretion in cash earnings per share, a decrease in tangible book value per share of approximately 43.12%, and a decrease in total book value per share of approximately 29.07% as a result of the consummation of the merger. The table below summarizes the results discussed above:

	Per Share:			
	2004E GAAP	2004E Cash	Book	Tangible Book
	Earnings	Earnings	Value	Value
Horizon standalone	\$ 4.35	\$ 4.35	\$ 36.02	\$ 36.02
Horizon Pro Forma*	\$ 4.56	\$ 4.74	\$ 24.46	\$ 19.04
% Accretion Dilution	4.94%	8.98%	-32.11%	-47.15%

* Based on an exchange ratio of 1.525.

Table of Contents

Comparable Company Analysis. Using publicly available information, Hovde Financial compared the financial performance and stock market valuation of Cullen/Frost with the following Southern United States (TX, LA, MS, AL, GA, TN, SC, NC, VA, FL) publicly traded banking institutions with assets as of December 31, 2004 between \$3 billion and \$20 billion:

<u>Company Name (Ticker)</u>	<u>Assets (\$mm)</u>
Alabama National Bancorporation (ALAB)	5,315,869
BancorpSouth, Inc. (BXS)	10,848,193
Colonial BancGroup, Inc. (CNB)	18,897,150
First Charter Corporation (FCTR)	4,431,605
First Citizens Bancorporation, Inc. (FCBN)	4,533,651
First Citizens BancShares, Inc. (FCNCA)	13,258,740
Hancock Holding Company (HBHC)	4,664,726
International Bancshares Corporation (IBOC)	9,917,951
South Financial Group, Inc. (The) (TSFG)	13,789,814
Southwest Bancorporation of Texas, Inc. (ABNK)	7,505,603
Sterling Bancshares, Inc. (SBIB)	3,336,070
Texas Regional Bancshares, Inc. (TRBS)	5,839,347
Trustmark Corporation (TRMK)	8,052,957
United Community Banks, Inc. (UCBI)	5,087,702
Whitney Holding Corporation (WTNY)	8,222,624

Indications of such financial performance and stock market valuation included profitability measures, earnings composition, operating and performance metrics, loan portfolio compositions, deposit compositions, yield and cost analysis, capital adequacy, asset quality, and reserve adequacy, all based on financial information as of December 31, 2004 and, where relevant, closing stock market information as of March 23, 2005. Selected market information for Cullen/Frost and the group of comparable companies that was analyzed is provided below.

	<u>Mkt. Cap</u>	<u>Price/</u>	<u>Price/</u>	<u>Price/</u>	<u>Price/</u>	<u>Core</u>	<u>Inside</u>	<u>Instit 1</u>
	<u>(\$m)</u>	<u>BV (%)</u>	<u>TBV</u>	<u>Price/LTM</u>	<u>LTM Core</u>	<u>Deposit</u>	<u>Ownership</u>	<u>Ownership</u>
			<u>(%)</u>	<u>EPS (x)</u>	<u>EPS (x)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>
Cullen/Frost	2,323	282.5	329.2	16.82	16.57	21.54	6.94	67.48
Comparable Company Average	1,393	197.1	266.6	17.39	17.68	18.67	17.57	33.30

	<u>ROAE (%)</u>	<u>ROAA (%)</u>	<u>Tangible</u>	<u>Net Interest</u>	<u>Efficiency</u>	<u>NPAs/</u>	<u>Reserves/</u>
			<u>Equity Ratio</u>	<u>Margin (%)</u>	<u>Ratio (%)</u>	<u>Average</u>	<u>NPAs</u>
			<u>(%)</u>			<u>Assets (%)</u>	<u>(%)</u>
Cullen/Frost	17.91	1.53	7.18	4.04	60.06	0.45	170.95
Comparable Company Average	12.57	1.09	6.83	3.84	60.52	0.39	255.93

Table of Contents

In addition, Hovde Financial compared the financial performance and stock market valuation of Cullen/Frost with a second comparable company group consisting of the following United States publicly traded banking institutions with assets as of December 31, 2004 between \$5 billion and \$15 billion and an ROAA between 1.25% and 1.75%:

<u>Company Name (Ticker)</u>	<u>Assets (\$mm)</u>
BOK Financial Corporation (BOKF)	14,395,414
Cathay General Bancorp, Inc. (CATY)	6,098,005
Chittenden Corporation (CHZ)	6,070,210
City National Corporation (CYN)	14,231,513
Commerce Bancshares, Inc. (CBSH)	14,250,368
Cullen/Frost Bankers, Inc. (CFR)	9,952,787
East West Bancorp, Inc. (EWBC)	6,028,880
First Midwest Bancorp, Inc. (FMBI)	6,863,381
Fulton Financial Corporation (FULT)	11,158,351
Hudson United Bancorp (HU)	9,079,042
International Bancshares Corporation (IBOC)	9,917,951
Investors Financial Services Corp. (IFIN)	11,167,825
MB Financial, Inc. (MBFI)	5,253,975
Mercantile Bankshares Corporation (MRBK)	14,425,690
Park National Corporation (PRK)	5,412,584
Silicon Valley Bancshares (SIVB)	5,153,600
Sky Financial Group, Inc. (SKYF)	14,944,423
Texas Regional Bancshares, Inc. (TRBS)	5,839,347
Trustmark Corporation (TRMK)	8,052,957
UCBH Holdings, Inc. (UCBH)	6,315,681
United Bankshares, Inc. (UBSI)	6,435,971
Valley National Bancorp (VLY)	10,763,391
W Holding Company Incorporated (WHI)	14,336,662
Whitney Holding Corporation (WTNY)	8,222,624
Wilmington Trust Corporation (WL)	9,510,182

Indications of such financial performance and stock market valuation included profitability measures, earnings composition, operating and performance metrics, loan portfolio compositions, deposit compositions, yield and cost analysis, capital adequacy, asset quality, and reserve adequacy, all based on financial information as of December 31, 2004 and, where relevant, closing stock market information as of March 23, 2005. Selected market information for Cullen/Frost and the group of comparable companies that was analyzed is provided below.

	<u>Mkt. Cap</u>	<u>Price/ BV</u>	<u>Price/ TBV</u>	<u>Price/ LTM EPS</u>	<u>Price/ LTM Core EPS</u>	<u>Core Deposit Prem.</u>	<u>Inside Ownership</u>	<u>Instit 1 Ownership</u>
	<u>(\$m)</u>	<u>(%)</u>	<u>(%)</u>	<u>(x)</u>	<u>(x)</u>	<u>(%)</u>	<u>(%)</u>	<u>(%)</u>
Cullen/Frost	2,323	282.5	329.2	16.82	16.57	21.54	6.94	67.48
Comparable Company Average	2,100	261.9	335.8	17.20	17.75	29.53	13.65	47.20

	<u>ROAE (%)</u>	<u>ROAA (%)</u>	<u>Tangible Equity Ratio (%)</u>	<u>Net Interest Margin (%)</u>	<u>Efficiency Ratio (%)</u>	<u>NPAs/ Average Assets (%)</u>	<u>Reserves/ NPAs</u>

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Cullen/Frost	17.91	1.53	7.18	4.04	60.06	0.45	170.95
Comparable Company Average	16.54	1.46	7.33	3.90	52.38	0.41	261.17

Table of Contents

Based upon the foregoing analyses and other investigations and assumptions set forth in its opinion, without giving specific weightings to any one factor or comparison, Hovde Financial determined that the transaction consideration was fair from a financial point of view to the shareholders of Horizon.

Miscellaneous

Pursuant to a letter agreement between Horizon and Hovde Financial, dated as of October 5, 2004, Horizon agreed to pay Hovde Financial an aggregate fee equal to \$35,000 upon the delivery of Hovde Financial's fairness opinion *plus* the sum of the following for its financial advisory services, including its opinion, in connection with the merger, to be paid upon the closing of the transaction:

one-half of one percent (0.50%) of the portion of the merger consideration that is less than or equal to one-hundred-million dollars (\$100,000,000); plus

three percent (3.0%) of the portion of the merger consideration that is greater than one-hundred-million dollars (\$100,000,000) but less than or equal to one-hundred-ten-million dollars (\$110,000,000); plus

five percent (5.0%) of the portion of the merger consideration that is greater than one-hundred-ten-million dollars (\$110,000,000) but less than or equal to one-hundred-twenty-million dollars (\$120,000,000); plus

seven percent (7.0%) of the portion of the merger consideration that is greater than one-hundred-twenty-million dollars (\$120,000,000).

Horizon also agreed to indemnify Hovde Financial and its affiliates from and against certain liabilities and expenses, which may include certain liabilities under federal securities laws, in connection with its engagement.

Material Federal Income Tax Consequences of the Merger

The following discussion (including the limitations and qualifications set forth therein) is based on the opinion of Jenkens & Gilchrist, P.C. received by Horizon and the opinion of Sullivan & Cromwell LLP received by Cullen/Frost, in each case, in connection with the filing of the registration statement of which this document is a part.

This discussion addresses the material United States federal income tax consequences of the merger to holders of Horizon common stock. The discussion is based on the Internal Revenue Code, Treasury regulations, administrative rulings and judicial decisions, all as currently in effect and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion applies only to Horizon stockholders that hold their Horizon common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code, each of which we refer to in this document as a holder. Further, this discussion does not address all aspects of United States federal taxation that may be relevant to a particular holder in light of its personal circumstances or to holders subject to special treatment under the United States federal income tax laws, including:

financial institutions,

investors in pass-through entities,

insurance companies,

tax-exempt organizations,

dealers in securities or currencies,

traders in securities that elect to use a mark to market method of accounting,

persons that hold Horizon common stock as part of a straddle, hedge, constructive sale or conversion transaction,

Table of Contents

persons who are not citizens or residents of the United States, and

shareholders who acquired their shares of Horizon common stock through the exercise of an employee stock option or otherwise as compensation.

In addition, the discussion does not address any alternative minimum tax or any state, local or foreign tax consequences of the merger.

Each holder of Horizon common stock should consult its tax advisor with respect to the particular tax consequences of the merger to such holder. In addition, because each Horizon stockholder may receive a mix of cash and stock regardless of whether such holder makes a cash election or stock election, it will not be possible for holders of Horizon common stock to determine the specific tax consequences of the merger to them at the time of making the election.

The completion of the merger is conditioned upon the delivery by each of Jenkens & Gilchrist, P.C., counsel to Horizon, and Sullivan & Cromwell LLP, counsel to Cullen/Frost, of its opinion to the effect that, on the basis of the facts, assumptions, and representations set forth in such opinion and certificates to be obtained from officers of Horizon and Cullen/Frost, the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Neither of these opinions is binding on the Internal Revenue Service or the courts, and neither Horizon nor Cullen/Frost intends to request a ruling from the Internal Revenue Service regarding the United States federal income tax consequences of the merger. Consequently, no assurance can be given that the Internal Revenue Service will not assert, or that a court would not sustain, a position contrary to any of those set forth below. In addition, if any of the representations or assumptions upon which such opinions are based is inconsistent with the actual facts, the United States federal income tax consequences of the merger could be adversely affected.

In addition, in connection with the filing of the registration statement of which this document is a part, Horizon has received the opinion of Jenkens & Gilchrist, P.C. and Cullen/Frost has received the opinion of Sullivan & Cromwell LLP, each stating that the merger will qualify as a reorganization within the meaning of Section 368 of the Internal Revenue Code and that no gain or loss will be recognized by a holder of Horizon common stock who receives Cullen/Frost common stock pursuant to the merger (except with respect to cash received instead of a fractional share of Cullen/Frost common stock and except to the extent of cash consideration received pursuant to the merger).

The United States federal income tax consequences of the merger to a holder generally will depend on whether the holder exchanges its Horizon common stock for cash, Cullen/Frost common stock or a combination of cash and Cullen/Frost common stock.

Exchange Solely for Cash. In general, if, pursuant to the merger, a holder exchanges all of the shares of Horizon common stock actually owned by it solely for cash, that holder will recognize gain or loss equal to the difference between the amount of cash received and its adjusted tax basis in the shares of Horizon common stock surrendered, which gain or loss generally will be long-term capital gain or loss if the holder's holding period with respect to the Horizon common stock surrendered is more than one year at the effective time of the merger. If, however, the holder constructively owns shares of Horizon common stock that are exchanged for shares of Cullen/Frost common stock in the merger or owns shares of Cullen/Frost common stock actually or constructively after the merger, the consequences to that holder may be similar to the consequences described below under the heading *Exchange for Cullen/Frost Common Stock and Cash*, except that the amount of consideration, if any, deemed to be a dividend may not be limited to the amount of that holder's gain.

Exchange Solely for Cullen/Frost Common Stock. If, pursuant to the merger, a holder exchanges all of the shares of Horizon common stock actually owned by it solely for shares of Cullen/Frost common stock, that holder will not recognize any gain or loss except in respect of cash received instead of a fractional share of Cullen/Frost common stock (as discussed below). The aggregate adjusted tax basis of the shares of

Cullen/Frost

Table of Contents

common stock received in the merger (including fractional shares deemed received and redeemed as described below) will be equal to the aggregate adjusted tax basis of the shares of Horizon common stock surrendered for the Cullen/Frost common stock, and a holder's holding period of the Cullen/Frost common stock (including fractional shares deemed received and redeemed as described below) will include the period during which the shares of Horizon common stock were held.

Exchange for Cullen/Frost Common Stock and Cash. If, pursuant to the merger, a holder exchanges all of the shares of Horizon common stock actually owned by it for a combination of Cullen/Frost common stock and cash, the holder will generally recognize gain (but not loss) in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the Cullen/Frost common stock received pursuant to the merger over that holder's adjusted tax basis in its shares of Horizon common stock surrendered) and (2) the amount of cash received pursuant to the merger. For this purpose, gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange. Holders should consult their tax advisors regarding the manner in which cash and Cullen/Frost common stock should be allocated among different blocks of Horizon common stock. Any recognized gain will generally be long-term capital gain if the holder's holding period with respect to the Horizon common stock surrendered is more than one year at the effective time of the merger. If, however, the cash received has the effect of the distribution of a dividend, the gain will be treated as a dividend to the extent of the holder's ratable share of accumulated earnings and profits as calculated for United States federal income tax purposes. See Possible Treatment of Cash as a Dividend below.

The aggregate tax basis of Cullen/Frost common stock received (including fractional shares deemed received and redeemed as described below) by a holder that exchanges its shares of Horizon common stock for a combination of Cullen/Frost common stock and cash pursuant to the merger will be equal to the aggregate adjusted tax basis of the shares of Horizon common stock surrendered for Cullen/Frost common stock and cash, reduced by the amount of cash received by the holder pursuant to the merger (excluding any cash received instead of a fractional share of Cullen/Frost common stock) and increased by the amount of gain (including any portion of the gain that is treated as a dividend as described below but excluding any gain or loss resulting from the deemed receipt and redemption of fractional shares described below), if any, recognized by the holder on the exchange. A holder's holding period of the Cullen/Frost common stock (including fractional shares deemed received and redeemed as described below) will include such holder's holding period of the shares of Horizon common stock surrendered.

Possible Treatment of Cash as a Dividend. In general, the determination of whether the gain recognized in the exchange will be treated as capital gain or has the effect of a distribution of a dividend depends upon whether and to what extent the exchange reduces the holder's deemed percentage stock ownership of Cullen/Frost. For purposes of this determination, the holder is treated as if it first exchanged all of its shares of Horizon common stock solely for Cullen/Frost common stock and then Cullen/Frost immediately redeemed, which we refer to in this document as the Deemed Redemption, a portion of the Cullen/Frost common stock in exchange for the cash the holder actually received. The gain recognized in the deemed redemption will be treated as capital gain if the deemed redemption is (1) substantially disproportionate with respect to the holder or (2) not essentially equivalent to a dividend.

The deemed redemption will generally be substantially disproportionate with respect to a holder if the percentage described in (2) below is less than 80% of the percentage described in (1) below. Whether the deemed redemption is not essentially equivalent to a dividend with respect to a holder will depend upon the holder's particular circumstances. At a minimum, however, in order for the deemed redemption to be not essentially equivalent to a dividend, the deemed redemption must result in a meaningful reduction in the holder's deemed percentage stock ownership of Cullen/Frost. In general, that determination requires a comparison of (1) the percentage of the outstanding stock of Cullen/Frost that the holder is deemed actually and constructively to have owned immediately before the deemed redemption and (2) the percentage of the outstanding stock of Cullen/Frost that is actually and constructively owned by the holder immediately after the deemed redemption. In

Table of Contents

applying the above tests, a holder may, under the constructive ownership rules, be deemed to own stock that is owned by other persons or stock underlying a holder's option to purchase such stock in addition to the stock actually owned by the holder.

The Internal Revenue Service has ruled that a stockholder in a publicly held corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is generally considered to have a meaningful reduction if that stockholder has a relatively minor reduction in its percentage stock ownership under the above analysis; accordingly, the gain recognized in the exchange by such a stockholder would be treated as capital gain.

These rules are complex and dependent upon the specific factual circumstances particular to each holder. Consequently, each holder that may be subject to these rules should consult its tax advisor as to the application of these rules to the particular facts relevant to such holder.

Cash Received Instead of a Fractional Share. A holder who receives cash instead of a fractional share of Cullen/Frost common stock will generally be treated as having received such fractional share and then as having received such cash in redemption of the fractional share. Gain or loss generally will be recognized based on the difference between the amount of cash received instead of the fractional share and the portion of the holder's aggregate adjusted tax basis of the shares of Horizon common stock exchanged in the merger which is allocable to the fractional share. Such gain or loss generally will be long-term capital gain or loss if the holding period for such shares of Horizon common stock is more than one year at the effective time of the merger.

Reporting Requirements. A holder of Horizon common stock receiving Cullen/Frost common stock as a result of the merger is required to retain records related to such holder's Horizon common stock and file with its United States federal income tax return a statement setting forth facts relating to the merger.

Backup Withholding and Information Reporting. Payments of cash to a holder of Horizon common stock may, under certain circumstances, be subject to information reporting and backup withholding at a rate of 28% of the cash payable to the holder, unless the holder provides proof of an applicable exemption satisfactory to Cullen/Frost and the exchange agent or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder's United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

Accounting Treatment

Cullen/Frost will account for the merger as a purchase by Cullen/Frost of Horizon under GAAP. Under the purchase method of accounting, the total consideration paid in connection with the merger is allocated among Horizon's assets, liabilities and identified intangibles based on the fair values of the assets acquired, the liabilities assumed and the identified intangibles. The difference between the total consideration paid in connection with the merger and the fair values of the assets acquired, the liabilities assumed and the identified intangibles, if any, is allocated to goodwill. The results of operations of Horizon will be included in Cullen/Frost's results of operations from the date of acquisition.

Interests of Certain Persons in the Merger

Stock Incentive Programs

During 1996, Horizon's board of directors approved a stock option plan, referred to as the plan, for officers and key employees to purchase common stock of Horizon. The aggregate number of shares of common stock reserved for issuance under the plan was 75,000. Both incentive stock options and non-qualified stock options could be granted under the Plan. During 2002, the plan was amended to allow an additional 120,000 stock options to be issued, increasing the aggregate number of shares to 195,000.

Table of Contents

Under the merger agreement, Horizon agreed to take all action necessary to ensure that each stock option granted under the plan, whether or not exercisable before the record date of Horizon's special meeting, will be exercisable before that date. Each option not exercised or forfeited before Horizon's special meeting would otherwise be cancelled for no consideration. Pursuant to the merger agreement, Horizon has taken such action and each option was exercised before the record date. As a result, options to purchase 117,600 shares were exercised.

As of April 19, 2005, the officers and directors as a group held options on 117,600 shares with an average exercise price of \$45.23. Under the merger agreement, an officer or director exercises his or her stock options, has a priority to receive, as consideration for his or her shares of Horizon common stock received upon the exercise of such stock options, Cullen/Frost common stock under the proration procedures described below in the event that the stock election is oversubscribed. See "The Merger Agreement - Merger Consideration".

Cullen/Frost Stock Options

Under the merger agreement, Cullen/Frost has agreed to grant, as of the effective time of the merger, 70,000 options to purchase Cullen/Frost common stock to Horizon employees selected by Cullen/Frost in its sole discretion. These options will be granted under an employee stock option plan of Cullen/Frost in effect at the time of the grant. The number of options to be granted to an individual Horizon employee and the terms of the options will be determined by Cullen/Frost in its sole discretion. However, the options will vest on the fourth anniversary of the effective time of the merger and will terminate on the sixth anniversary of the effective time of the merger.

Indemnification and Insurance

The merger agreement provides that, upon completion of the merger, Cullen/Frost will indemnify, defend and hold harmless the directors and officers of Horizon (when acting in such capacity) against all costs and liabilities arising out of actions or omissions occurring at or before the completion of the merger, in accordance with Horizon's articles of association to the extent permitted by law.

The merger agreement also provides that for a period of three years after the merger is completed, Cullen/Frost will maintain Horizon's existing director's and officer's liability insurance if the annual premium therefore is not in excess of the last annual premium paid prior to the date of the merger agreement. However, if Horizon's existing director's and officer's insurance expires, is terminated or is cancelled during this three-year period, Cullen/Frost will use its reasonable best efforts to obtain as much comparable insurance as can be obtained for the remainder of the period for a premium not in excess of the last annual premium paid prior to the date of the merger agreement.

Loans to Certain Horizon Officers and Employees

In connection with the exercise of options to purchase or receive Horizon common stock, Cullen/Frost offered to make loans on fair market terms to certain officers and employees holding options to fund the exercise or purchase price of the common stock subject to these options. No such loans were made to executive officers.

Table of Contents

THE MERGER AGREEMENT

The following discussion describes the material provisions of the merger agreement, as amended. We urge you to read the merger agreement, including the amendment to the merger agreement, which is attached as Appendix A and incorporated by reference in this document, carefully and in its entirety. The description of the merger agreement, as amended, in this proxy statement-prospectus has been included to provide you with information regarding its terms. The merger agreement contains representations and warranties made by and to the parties thereto as of specific dates. The statements embodied in those representations and warranties were made for purposes of that contract between the parties and are subject to qualifications and limitations agreed by the parties in connection with negotiating the terms of that contract. In addition, certain representations and warranties were made as of a specified date, may be subject to a contractual standard of materiality different from those generally applicable to shareholders, or may have been used for the purpose of allocating risk between the parties rather than establishing matters as facts.

Structure

Subject to the terms and conditions of the merger agreement, at the completion of the merger, Horizon will merge with and into a newly formed, wholly owned bank subsidiary of Cullen/Frost, which we refer to as interim bank sub , and interim bank sub will be the surviving corporation. The separate existence of Horizon will terminate. Immediately following the merger, the capital stock of interim bank sub will be contributed to The New Galveston Company, a wholly owned bank holding company subsidiary of Cullen/Frost. Immediately following the contribution, The New Galveston Company will cause interim bank sub to merge with and into The Frost National Bank, a wholly owned bank subsidiary of The New Galveston Company. The Frost National Bank will be the surviving corporation of the second merger and will continue its corporate existence under the laws of the United States.

Merger Consideration

The total consideration to be paid to Horizon shareholders in the merger consists of 1,400,000 shares of Cullen/Frost common stock and \$45,000,000 in cash. If the average trading price of the Cullen/Frost stock over the ten-trading-day period ending on the trading day immediately prior to the merger's closing date is greater than \$53.46, the amount of cash will be reduced. If such average trading price is less than \$43.74, the amount of cash will be increased but not above \$50,236,000. Under certain circumstances, the aggregate amount of cash consideration may also be increased, to the extent that the amount of pre-closing shareholders equity minus \$38,000,000 exceeds 5% of the amount of pre-closing shareholders equity, by the amount of the excess over 5%. Pre-closing shareholders equity means the total shareholders equity of Horizon as of the month-end immediately preceding the merger's closing date, adjusted to take into account certain transaction expenses. Each Horizon shareholder will be entitled to elect to receive for each share of Horizon common stock either shares of Cullen/Frost common stock or cash, subject to the amount of shares and cash available and the election and allocation procedures in the merger agreement. Generally, to the extent that you receive Cullen/Frost common stock, the merger will be tax-free to you, other than with respect to any cash consideration or cash you receive for fractional shares.

The number of shares of Cullen/Frost common stock and the amount of cash to be received for each share of Horizon common stock will be based on a formula. This formula first values the aggregate consideration to be received by all Horizon shareholders in the merger using the average trading price of Cullen/Frost common stock described above and the amount of cash to be paid. It then divides that value by the number of shares of Horizon common stock outstanding at the time of the merger, which is expected to be 944,966. The result would be the amount of cash per share to be paid to Horizon shareholders. The number of shares of Cullen/Frost common stock to be exchanged for each share of Horizon stock would be equal to that per share cash amount divided by the average trading price of the Cullen/Frost common stock described above.

The total amount of Cullen/Frost common stock available in the merger is fixed. As described above, the total amount of cash consideration available in the merger may be adjusted prior to the closing but it will be fixed

Table of Contents

at the closing. Notwithstanding the foregoing, the value of the stock to be received by Horizon shareholders will change depending on changes in the market price of Cullen/Frost common stock. Set forth below is a table showing a hypothetical range of prices for shares of Cullen/Frost common stock and the corresponding consideration that a Horizon shareholder would receive in a cash election and a stock election under the merger consideration formula based on the number of fully diluted shares of Horizon common stock currently outstanding, after exercise of stock options. The table does not reflect the fact that cash will be paid instead of fractional shares and the additional amount of cash that may be payable because of the limit on the special dividend, if any.

Total Merger Consideration					
Aggregate					
Amount of					
Cash					
Hypothetical	(excluding any			Number of	Value of
Ten-Day	Aggregate	additional		Shares of	Shares of
Average Closing	Number of	amount		Cullen/Frost	Cullen/Frost
Sales Price	Shares of	resulting from		Common	Common
for	Cullen/Frost	the limit on		Cash Amount	Stock for
Cullen/Frost	Common	the special		Per Share of	Each Share of
Common Stock	Stock	dividend)		Horizon Stock	Horizon Stock
					on Ten-Day
					Average
\$35.00	1,400,000	\$50,236,000.00	\$105.02	3.0004	\$49,000,000.00
36.00	1,400,000	50,236,000.00	106.50	2.9582	50,400,000.00
37.00	1,400,000	50,236,000.00	107.98	2.9183	51,800,000.00
38.00	1,400,000	50,236,000.00	109.46	2.8805	53,200,000.00
39.00	1,400,000	50,236,000.00	110.94	2.8447	54,600,000.00
40.00	1,400,000	50,236,000.00	112.42	2.8106	56,000,000.00
41.00	1,400,000	48,836,000.00	112.42	2.7420	57,400,000.00
42.00	1,400,000	47,436,000.00	112.42	2.6767	58,800,000.00
43.00	1,400,000	46,036,000.00	112.42	2.6145	60,200,000.00
44.00	1,400,000	45,000,000.00	112.81	2.5638	61,600,000.00
45.00	1,400,000	45,000,000.00	114.29	2.5398	63,000,000.00
46.00	1,400,000	45,000,000.00	115.77	2.5168	64,400,000.00
47.00	1,400,000	45,000,000.00	117.25	2.4947	65,800,000.00
48.00	1,400,000	45,000,000.00	118.73	2.4736	67,200,000.00
49.00	1,400,000	45,000,000.00	120.22	2.4534	68,600,000.00
50.00	1,400,000	45,000,000.00	121.70	2.4340	70,000,000.00
51.00	1,400,000	45,000,000.00	123.18	2.4153	71,400,000.00
52.00	1,400,000	45,000,000.00	124.66	2.3973	72,800,000.00
53.00	1,400,000	45,000,000.00	126.14	2.3800	74,200,000.00
54.00	1,400,000	44,244,000.00	126.82	2.3486	75,600,000.00
55.00	1,400,000	42,844,000.00	126.82	2.3059	77,000,000.00

The examples above are illustrative only. The value of the merger consideration that you actually receive will be based on the average trading price of Cullen/Frost common stock prior to completion of the merger, as described above. If that average price is not included in the table above, including because the price is outside the range of the amounts set forth above, we do not intend to re-solicit proxies from Horizon shareholders in connection with the merger.

Based on the closing price of Cullen/Frost common stock on July 26, 2005, for each of your shares of Horizon common stock you would receive either approximately \$120.87 in cash or approximately 2.4447 shares of Cullen/Frost common stock, subject to possible proration and adjustment, including as a result of the limit on the special dividend. However, we will compute the actual amount of cash and number of shares of Cullen/Frost common stock you will receive in the merger using the formula contained in the merger agreement.

Table of Contents

As explained in more detail in this proxy statement-prospectus, whether you make a cash election or a stock election, the value of the consideration that you will receive as of the completion of the merger will be the same based on the Cullen/Frost stock price used to calculate the merger consideration. Any Horizon shareholder who does not make a valid election in the shareholder's form of election will receive cash, shares of Cullen/Frost common stock or a mixture of cash and shares of Cullen/Frost common stock, based on what is available after giving effect to the valid elections made by other shareholders and the impact of the proration provisions described below. In addition, Horizon shareholders may specify different elections with respect to different shares held by them (for example, a shareholder with 100 shares could make a cash election with respect to 50 shares and a stock election with respect to the other 50 shares).

Cash Election. The merger agreement provides that each Horizon shareholder who makes a valid cash election will have the right to receive, in exchange for each share of Horizon common stock, an amount in cash equal to the cash amount per share calculated as described above, subject to possible proration and adjustment.

Stock Election. The merger agreement provides that each Horizon shareholder who makes a valid stock election will have the right to receive, in exchange for each share of Horizon common stock, a number of shares of Cullen/Frost common stock and rights issued and attached to such stock calculated as described above, subject to possible proration and adjustment.

Non-Electing Shares. Horizon shareholders who make no election to receive cash or Cullen/Frost common stock in the merger, and Horizon shareholders who do not make valid elections, will be deemed not to have made an election. Horizon shareholders not making an election may be paid in cash, Cullen/Frost common stock or a mix of cash and shares of Cullen/Frost common stock depending on, and after giving effect to, the number of valid cash elections and stock elections that have been made by other Horizon shareholders and application of the proration adjustments described below.

Proration. The total number of shares of Cullen/Frost common stock that will be issued and cash that will be paid in the merger is fixed at 1,400,000 shares and \$45,000,000, respectively, subject to an adjustment of the cash amount described above. Therefore, the cash and stock elections are subject to proration to preserve this limitation on the number of shares of Cullen/Frost common stock to be issued and cash to be paid in the merger. As a result, even if you make the cash election or stock election, you may nevertheless receive a mix of cash and stock.

Effect of Horizon Shareholders Electing to Receive More than 1,400,000 Shares of Cullen/Frost Stock. Cash may be paid to shareholders who make stock elections if the stock election is oversubscribed. The shares of Horizon common stock for which valid stock elections are made are known as the stock election shares. The number of shares of Horizon common stock that will be converted into shares of Cullen/Frost common stock in the merger is equal to the stock conversion number, which is equal to (1) 1,400,000 divided by (2) the number of shares of Cullen/Frost common stock to be exchanged for each Horizon share.

If the stock election shares are greater than the stock conversion number, the stock election is oversubscribed. If the stock election is oversubscribed, then:

Horizon shareholders making a cash election, and those shareholders who failed to make valid elections, will receive merger consideration consisting only of cash for each share of Horizon common stock;

the exchange agent will allocate from among the stock election shares (other than stock election shares that relate to shares of Horizon common stock that were received upon the exercise of an option to purchase such stock after the date of the merger agreement,

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collectively referred to as BSO stock election shares) pro rata to the holders of those shares in accordance with their respective numbers of stock election shares, a sufficient number of stock election shares, referred to as converted stock election shares , so that the difference between (1) the number of stock election shares (including BSO stock election shares) less (2) the number of the converted stock election shares equals as closely as practicable the stock conversion number, and each converted stock election share will be, as of the effective time of the merger, converted into the right to receive the cash consideration; and

Table of Contents

each BSO stock election share and each other stock election share that is not a converted stock election share will be converted into the right to receive the stock consideration.

Effect of Horizon Shareholders Electing to Receive More than the Aggregate Amount of Cash. Cullen/Frost common stock may be issued to shareholders who make cash elections if the cash election is oversubscribed. If the cash election is oversubscribed, then:

each stock election share will be converted into the right to receive the stock consideration;

the exchange agent will allocate from among the shares with respect to which no valid election has been made, referred to as non-election shares, pro rata to the holders of non-election shares in accordance with their respective numbers of non-election shares, a sufficient number of non-election shares so that the sum of such number and the number of stock election shares equals as closely as practicable the stock conversion number, and each such allocated non-election share, each referred to as a stock-selected non-election share, will be converted into the right to receive the stock consideration, except that if the sum of all non-election shares and stock election shares is equal to or less than the stock conversion number, all non-election shares will be stock-selected non-election shares;

if the sum of stock election shares and non-election shares is less than the stock conversion number, the exchange agent will allocate from among the shares with respect to which a valid cash election was made, referred to as cash election shares, other than such shares representing dissenting shares, pro rata to the holders of cash election shares in accordance with their respective numbers of cash election shares, a sufficient number of cash election shares so that the sum of such number, the number of all stock election shares and the number of all non-election shares equals as closely as practicable the stock conversion number, and each such allocated cash election share, each referred to as a converted cash election share, will be converted into the right to receive the stock consideration; and

each non-election share and cash election share that is not a stock-selected non-election share or a converted cash election share will be converted into the right to receive the cash consideration.

Horizon Stock Options. The merger agreement obligates Horizon to take all action necessary to ensure that each stock option held by Horizon directors or employees, whether or not the option is exercisable before the record date for Horizon's special meeting, will be exercised before that date. Horizon's obligation includes ensuring that each option holder is given notice and informed of the procedures for exercising the options before the record date. Each option not exercised or forfeited before the record date of Horizon's special meeting will be cancelled for no consideration. All options were exercised prior to the record date.

Conversion of Shares; Exchange of Certificates; Elections as to Form of Consideration; Fractional Shares

Conversion. The conversion of Horizon common stock into the right to receive the merger consideration will occur automatically at the effective time of the merger.

Exchange Procedures. Prior to the completion of the merger, Cullen/Frost will deposit with its transfer agent or with a depository or trust institution of recognized standing selected by it and reasonably satisfactory to Horizon, which we refer to as the exchange agent, (1) certificates or, at Cullen/Frost's option, evidence of shares in book-entry form, representing the shares of Cullen/Frost common stock to be issued under the merger agreement and (2) cash payable as part of the cash consideration and instead of any fractional shares of Cullen/Frost common stock to be issued under the merger agreement. Promptly after the effective time of the merger, the exchange agent will exchange certificates representing shares of Horizon common stock for merger consideration to be received in the merger pursuant to the terms of the merger agreement. No

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interest will accrue or be paid with respect to any property to be delivered upon surrender of Horizon stock certificates.

If any Cullen/Frost stock certificate is to be issued, or cash payment made, in a name other than that in which the Horizon stock certificate surrendered in exchange for the merger consideration is registered, the person requesting the exchange must pay any transfer or other taxes required by reason of the issuance of the new

Table of Contents

Cullen/Frost certificate or the payment of the cash consideration in a name other than that of the registered holder of the Horizon stock certificate surrendered, or must establish to the satisfaction of Cullen/Frost and the exchange agent that any such taxes have been paid or are not applicable.

Election Form. The merger agreement provides that the cash or stock elections will be made on a form reasonably agreed upon by Cullen/Frost and Horizon. The exchange agent will mail or deliver to each holder of record of Horizon common stock, at the same time Horizon shareholders are mailed this proxy statement-prospectus, the election form and appropriate transmittal materials containing instructions for use in effecting the surrender of Horizon stock certificates in exchange for the merger consideration.

Election Deadline; Submission of Election Materials. To be effective, election forms must be properly completed, signed and actually received by the exchange agent not later than 5:00 p.m., Central Time, on August 30, 2005 the day of the special meeting of Horizon shareholders.

An election form will be properly completed only if accompanied by certificates representing all shares of Horizon common stock covered by the election form. If a shareholder cannot deliver his or her stock certificates to the exchange agent by the election deadline, a shareholder may deliver a notice of guaranteed delivery promising to deliver his or her stock certificates, as described in the form of election, so long as (1) the guarantee of delivery is from a commercial bank or trust company having an office in the United States or a member of a registered national securities exchange or of the NASD and (2) the actual stock certificates are in fact delivered to the exchange agent within three trading days of execution of guarantee of delivery.

Generally, an election may be revoked, but only by written notice received by the exchange agent prior to the election deadline. If an election is revoked and any certificates have been transmitted to the exchange agent, the exchange agent will, upon written request, return those certificates to the shareholder who submitted them.

Shares of Horizon common stock as to which the holder has not made a valid election prior to the election deadline, including as a result of revocation, will be deemed non-electing shares.

Dividends and Distributions. Until Horizon common stock certificates are surrendered for exchange, any dividends or other distributions declared after the effective time with respect to Cullen/Frost common stock into which shares of Horizon common stock may have been converted will accrue but will not be paid. When duly surrendered, Cullen/Frost will pay any unpaid dividends or other distributions, without interest. After the effective time, there will be no transfers on the stock transfer books of Horizon of any shares of Horizon common stock. If certificates representing shares of Horizon common stock are presented for transfer after the completion of the merger, they will be cancelled and exchanged for the merger consideration into which the shares of Horizon common stock represented by that certificate have been converted.

Withholding. The Exchange Agent will be entitled to deduct and withhold from the merger consideration payable to any Horizon shareholder the amounts it is required to deduct and withhold under any federal, state, local or foreign tax law. If the Exchange Agent withholds any amounts, these amounts will be treated for all purposes of the merger as having been paid to the shareholders from whom they were withheld.

No Fractional Shares Will Be Issued. Cullen/Frost will not issue fractional shares of Cullen/Frost common stock in the merger. There will be no dividends or voting rights with respect to any fractional common shares. For each fractional share of common stock that would otherwise be issued, Cullen/Frost will pay cash in an amount equal to the fraction of a whole share that would otherwise have been issued, multiplied by the

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closing sale price of Cullen/Frost common stock on the NYSE for the last NYSE trading day immediately preceding the date the merger is completed. No interest will be paid or accrued on the cash.

Lost, Stolen or Destroyed Horizon Common Stock Certificates. If you have lost a certificate representing Horizon common stock, or it has been stolen or destroyed, Cullen/Frost will issue to you the common stock or cash payable under the merger agreement if you submit an affidavit of that fact and post bond in a customary amount to protect against any claim that may be made against Cullen/Frost about ownership of the lost, stolen or destroyed certificate.

Table of Contents

For a description of Cullen/Frost common stock and a description of the differences between the rights of Horizon shareholders and Cullen/Frost shareholders, see [Description of Cullen/Frost Capital Stock](#) beginning on page 60 and [Comparison of Shareholder Rights](#) beginning on page 63.

Effective Time

We plan to complete the merger on a business day designated by Cullen/Frost that is (a) within 60 days after the receipt of the last required regulatory approval (or, if later, within 10 days after the satisfaction of those routine conditions that by their nature are to be satisfied at the closing) and (b) after the satisfaction or waiver of the last remaining condition to the merger, other than those routine conditions that by their nature are to be satisfied at the closing. Both Horizon and Cullen/Frost may waive this time period. The time the merger is completed is the effective time of the merger. See [Conditions to Completion of the Merger](#) beginning on page 43.

We anticipate that we will complete the merger during the fiscal quarter ending December 31, 2005. However, completion could be delayed if there is a delay in obtaining the necessary regulatory approvals or for other reasons. There can be no assurances as to if or when these approvals will be obtained or as to whether or when the merger will be completed. If we do not complete the merger by November 30, 2005, either party may terminate the merger agreement without penalty unless the failure to complete the merger by this date is due to the failure of the party seeking to terminate the merger agreement to perform or observe its obligations under the merger agreement. See [Conditions to Completion of the Merger](#) beginning on page 43 and [Regulatory Approvals Required for the Merger](#) beginning on page 46.

Representations and Warranties

The merger agreement contains representations and warranties of Cullen/Frost and Horizon, to each other, as to, among other things:

the corporate organization and existence of each party and its subsidiaries and the valid ownership of its significant subsidiaries;

the capitalization of each party;

the authority of each party and its subsidiaries to enter into the merger agreement and make it valid and binding;

the fact that the merger agreement does not breach:

the articles of incorporation and by-laws of each party,

applicable law, and

agreements, instruments or obligations of each party;

governmental approvals;

regulatory investigations and orders;

each party's financial statements and filings with applicable regulatory authorities;

the absence of material changes in each party's business since December 31, 2004;

the absence of undisclosed obligations or liabilities;

the absence of litigation;

each party's compliance with applicable law;

the validity of, and the absence of material defaults under, each party's material contracts;

Table of Contents

the accuracy of each party's books and records; sufficiency of each party's internal controls; and

each party's relationships with financial advisors;

In addition, the merger agreement contains representations and warranties of Horizon to Cullen/Frost as to:

the validity and enforceability of the Bay Area Bank and Trust Voting and Stock Restriction Agreement;

the absence of a breach of any provision or defaults under the Bay Area Bank and Trust Voting and Stock Restriction Agreement;

approvals and consents required in relation to the Bay Area Bank and Trust Voting and Stock Restriction Agreement;

employee benefit plans and related matters;

the filing and accuracy of tax returns, and the tax treatment of the merger;

the inapplicability to the merger and the stock option agreement of state anti-takeover laws and the anti-takeover provisions in Horizon's articles of incorporation and by-laws;

title and interest in property;

material contracts;

material interests of officers, directors or associates;

adequacy of insurance coverage;

enforceability and validity of extensions of credit and interest rate risk management instruments;

its employment and consulting contracts;

labor matters; and

environmental matters.

Conduct of Business Pending the Merger

Horizon has agreed that, except as expressly contemplated by the merger agreement or as disclosed prior to the signing of the merger agreement, it will not, and will not agree to, without Cullen/Frost's consent:

conduct its business other than in the ordinary and usual course;

fail to use reasonable best efforts to preserve intact its business organizations, assets and other rights, and its existing relations with customers and other parties;

take any action reasonably likely to impair materially its ability to perform its obligations under the merger agreement or complete the transactions described in those documents;

enter into any new material line of business or change its banking and operating policies;

make any capital expenditures in excess of \$25,000 individually or \$100,000 in the aggregate;

terminate, enter into, amend, modify or renew any material contract;

make or renew any loan, revolving credit facility, letter of credit or other extension of credit or commitment to extend credit in excess of \$1,500,000;

enter into or renew any interest rate swaps, caps, floors and option agreements and other interest rate risk management arrangements;

make, change or revoke any tax election, file any amended tax return, enter into any closing agreement, settle any tax claim or assessment, or surrender any right to claim a refund of taxes;

Table of Contents

settle any action, suit, claim or proceeding against it, other than in the ordinary course of business in an amount not in excess of \$100,000 and that would not (1) impose any material restriction on Horizon's or its subsidiaries' business or (2) create precedent for claims that are reasonably likely to be material to it or its subsidiaries;

adjust, split, combine, redeem, reclassify, purchase or otherwise acquire any of its own stock;

declare or pay any dividend or distribution on any shares of its stock, other than the special dividend that Horizon may pay prior to the effective time of the merger;

permit any additional shares of stock to become subject to new grants of rights to acquire stock;

issue, sell, or dispose of or encumber, or authorize or propose the creation of, any additional shares of capital stock;

sell, transfer, mortgage, encumber or otherwise dispose of any assets, deposits, business or properties, except in a nonmaterial transaction in the ordinary course of business consistent with past practice;

acquire the assets, business, deposits or properties of any other entity except in various specified transactions in the ordinary course of business consistent with past practice;

knowingly take, or knowingly omit to take, any action that would, or is reasonably likely to, prevent or impede the merger from qualifying as a reorganization within the meaning of Section 368 of the Internal Revenue Code or knowingly take, or knowingly omit to take, any action that is reasonably likely to result in any of the conditions to the merger not being satisfied in a timely manner, or any action that is reasonably likely to materially impair its ability to perform its obligations under the merger agreement or to consummate the transactions contemplated thereby, except as required by applicable law;

amend its articles of incorporation or by-laws;

change its accounting principles, practices or methods, except as required by GAAP;

terminate, enter into, amend, modify or renew any employment agreements or grant salary increases or employee benefit increases except as required by applicable law, to satisfy previously existing and disclosed contractual obligations or for certain changes that are in the ordinary course of business; or

terminate, enter into, establish, adopt or amend any employee benefit plans, except as required by applicable law, to satisfy previously existing and disclosed contractual obligations or for any amendments that do not increase benefits or administrative costs.

Cullen/Frost has agreed, except as expressly contemplated by the merger agreement or as disclosed prior to signing the merger agreement, that it will not, and will not agree to, without Horizon's consent, knowingly take, or knowingly omit to take, any action that would, or is reasonably likely to, prevent or impede the merger from qualifying as a reorganization within the meaning of Section 368 of the Internal Revenue Code or knowingly take, or knowingly omit to take, any action that is reasonably likely to result in any of the conditions to the merger not being satisfied in a timely manner, or any action that is reasonably likely to materially impair its ability to perform its obligations under the merger agreement or to consummate the transactions contemplated thereby, except as required by applicable law; provided that these restrictions shall not preclude it from exercising its rights under the voting agreements.

The merger agreement permits Cullen/Frost to make acquisitions and dispositions and to issue capital stock in connection therewith if such transactions do not present a material risk that the completion of the merger will be materially delayed or that any required regulatory approvals will be materially more difficult to obtain.

Acquisition Proposals by Third Parties

Horizon has agreed that it will not solicit or encourage inquiries or proposals with respect to any acquisition proposal. Horizon has also agreed that it will not engage in any negotiations concerning any acquisition proposal, or provide any confidential or nonpublic information or data to, or have any discussions with, any person relating to any acquisition proposal.

Table of Contents

However, if Horizon receives an unsolicited bona fide acquisition proposal and Horizon's board concludes in good faith that it constitutes a superior proposal, Horizon may furnish nonpublic information and participate in negotiations or discussions to the extent that its board concludes in good faith (and based on the advice of counsel) that failure to take those actions would result in a violation of its fiduciary duties. Before providing any nonpublic information, Horizon must enter into a confidentiality agreement with the third party no less favorable to it than the confidentiality agreement with Cullen/Frost. While Horizon has the right to enter into negotiations regarding a superior proposal under the foregoing circumstances, the merger agreement does not allow Horizon to terminate the merger agreement solely because it has received a superior proposal or entered into such negotiations.

For purposes of the merger agreement, the terms "acquisition proposal" and "superior proposal" have the following meanings:

The term "acquisition proposal" means, other than the transactions contemplated by the merger agreement:

a tender or exchange offer to acquire more than 15% of the voting power in Horizon;

a proposal for a merger, consolidation or other business combination involving Horizon; or

any other proposal to acquire more than 15% of the voting power in, or more than 15% of the business, assets or deposits of, Horizon.

The term "superior proposal" means a bona fide written acquisition proposal (substituting 25% for 15% in the first and third bullet points above) which the Horizon board concludes in good faith to be more favorable from a financial point of view to its shareholders than the Cullen/Frost merger after:

receiving the advice of its financial advisors;

taking into account the likelihood of completion of the proposed transaction; and

taking into account legal, financial, regulatory and other aspects of such proposal.

Horizon has agreed to cease immediately any activities, negotiations or discussions conducted before the date of the merger agreement with any other persons with respect to acquisition proposals and to use reasonable best efforts to enforce any confidentiality or similar agreement relating to such acquisition proposals. Horizon has also agreed to notify Cullen/Frost within one business day of receiving any acquisition proposal and the substance of the proposal.

In addition, Horizon has agreed to use all reasonable best efforts to obtain from its shareholders approval of the merger agreement, the plan of merger and the merger. However, if Horizon's board (after consultation with, and based on the advice of, counsel) determines in good faith that, because of an acquisition proposal that Horizon's board concludes in good faith constitutes a superior proposal, to continue to recommend such items to its shareholders would violate its fiduciary duties, it may submit such items without recommendation and communicate the basis for its lack of recommendation to its shareholders. Horizon agreed that before taking such action with respect to an acquisition proposal, it will give Cullen/Frost at least 10 business days to respond to the proposal and will consider any amendment or modification to the merger agreement proposed by Cullen/Frost.

Horizon has also agreed to use all reasonable best efforts to ensure the taking of all necessary action under the Bay Area Bank and Trust Voting and Stock Restriction Agreement in relation to the merger agreement, the plan of merger and the merger, including the receipt by the voting representative of direction as to the voting of all Horizon common stock that is subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement.

Special Dividend

Prior to the effective date of the merger, Horizon may declare a one-time, special dividend on the outstanding shares of Horizon common stock, which we refer to as the special dividend , in an amount per share

Table of Contents

equal to the per share special dividend amount. The per share special dividend amount is equal to the amount of Horizon's total shareholders equity as of the month-end preceding the merger's scheduled closing (adjusted to include certain accruals of revenues and expenses, including transaction expenses) minus \$38,000,000, provided that such amount does not exceed 5% of Horizon's pre-closing shareholders equity, divided by the number of shares of Horizon common stock outstanding immediately prior to the merger's effective time. The adjustments to Horizon's total shareholders equity will be determined based on a balance sheet, the contents of which must be agreed upon by Horizon and Cullen/Frost, or otherwise arbitrated by PricewaterhouseCoopers LLP. If the amount of Horizon's shareholders' equity minus \$38,000,000 would exceed 5% of Horizon's pre-closing shareholders' equity, the amount of cash to be paid in the merger would be increased by an amount equal to the excess over 5%.

Based on estimated pre-closing shareholders' equity of \$40.8 million at June 30, 2005, after giving effect to the exercise of all stock options that occurred prior to the date hereof, the special dividend in the aggregate would be approximately \$2.04 million or \$2.16 per share of Horizon common stock and the additional amount added to the aggregate merger consideration would be approximately \$0.75 million or \$0.79 per share of Horizon common stock. The final amount of the special dividend will not be known until shortly before the consummation of the merger and may be more or less than the amount that would have been paid if the special dividend was based on June 30, 2005 financials.

Other Agreements

In addition to the agreements we have described above, we have also agreed in the merger agreement to take several other actions, such as:

we agreed to use all reasonable best efforts to complete the merger and the other transactions contemplated by the merger agreement;

we agreed to give notice to the other party of any fact, event or circumstance that is reasonably likely to result in any material adverse effect or that would constitute a material breach of any of our representations, warranties, covenants or agreements in the merger agreement;

we agreed that Horizon will convene a meeting of its shareholders as soon as practicable to consider and vote on the merger agreement, the plan of merger and the merger;

we agreed, subject to applicable law, to cooperate with each other and to prepare promptly and file all necessary documentation to obtain all required permits, consents, approvals and authorizations of third parties and governmental entities, including this proxy statement-prospectus and the registration statement for the Cullen/Frost common stock to be issued in the merger;

we agreed that Horizon will provide Cullen/Frost, and Cullen/Frost's officers, employees, counsel, accountants and other authorized representatives, access during normal business hours throughout the period prior to the effective time of the merger to the books, records, properties, personnel and other information of Horizon as Cullen/Frost may reasonably request;

we agreed that Horizon will provide Cullen/Frost with copies of documents filed by Horizon pursuant to the requirements of federal or state banking or securities laws and all other information concerning the business, properties and personnel of Horizon as Cullen/Frost may reasonably request, including providing Cullen/Frost with final monthly general ledger reports for each month-end beginning with March 31, 2005 until the effective time of the merger;

we agreed to cooperate on shareholder and employee communications and press releases;

we agreed that Horizon will not take any actions that would cause the transactions contemplated by the merger agreement to be subject to any takeover laws or takeover provisions of our articles of incorporation or by-laws;

we agreed to keep any nonpublic information confidential;

we agreed that Horizon will make modifications to its loan, litigation and real estate valuation policies that we may mutually agree upon;

Table of Contents

we agreed to consult each other with respect to the character, amount and timing of restructuring charges to be taken by Horizon in connection with the transactions contemplated by the merger agreement, and to record such charges in accordance with GAAP;

we agreed that following the closing, employees of Horizon will be provided with benefits under employee benefit plans (other than stock options or other plans involving the issuance of securities of Horizon or Cullen/Frost) which in the aggregate are substantially comparable to those currently provided by Cullen/Frost to its similarly situated employees, as in effect from time to time (provided that (a) employees of Horizon will not be eligible to accrue benefits under Cullen/Frost's profit sharing plans until the first year in which such employees are employed by Cullen/Frost or a subsidiary of Cullen/Frost as of January 1 of such year and (b) in no event will employees of Horizon be entitled to receive benefits under the Cullen/Frost non-contributory defined benefit plans, which were frozen effective December 31, 2001);

we agreed that Cullen/Frost will cause each employee benefit plan of Cullen/Frost in which Horizon employees are eligible to participate to take into account for purposes of eligibility and vesting thereunder the service of such employees with Horizon as if such service were with Cullen/Frost, to the same extent that such service was credited under a comparable plan of Horizon, and, with respect to welfare benefit plans of Cullen/Frost in which employees of Horizon are eligible to participate, Cullen/Frost agreed to waive any preexisting conditions, waiting periods and actively at work requirements under such plans;

we agreed that Cullen/Frost will honor in accordance with their terms all employee benefit obligations to current and former employees of Horizon accrued on the balance sheet Horizon delivers to Cullen/Frost immediately prior to closing, as required by the merger agreement;

we agreed that employees of Horizon as of the closing who are terminated during the period commencing at the closing and ending on the six-month anniversary thereof will be entitled to receive severance payments and benefits in accordance with Cullen/Frost's severance policies applicable to similarly situated employees;

we agreed that Horizon will take all action necessary so that each employee and director option to purchase Horizon common stock will be exercisable prior to Horizon's shareholder meeting and that each option not exercised or forfeited prior to the meeting is cancelled for no consideration;

we agreed that, upon Cullen/Frost's request, Horizon will take all action necessary, including adopting resolutions of its board, to terminate any employee benefit plan covering its employees, including its 401(k) Plan;

we agreed that Horizon will cause each of its affiliate shareholders to deliver to Cullen/Frost and Horizon a written agreement restricting the ability of such person to sell or otherwise dispose of any Cullen/Frost common stock or Horizon common stock held by that person;

we agreed that, upon completion of the merger, Cullen/Frost will indemnify, defend and hold harmless the directors and officers of Horizon (when acting in such capacity) against all costs and liabilities arising out of actions or omissions occurring at or before the completion of the merger, in accordance with Horizon's articles of association to the extent permitted by law;

we agreed that, for a period of three years after the merger is completed, Cullen/Frost will maintain Horizon's existing director's and officer's liability insurance if the annual premium therefor is not in excess of the last annual premium paid prior to the date of the merger agreement; and

we agreed that Cullen/Frost will grant an aggregate of 70,000 options to purchase Cullen/Frost common stock to Horizon employees selected by Cullen/Frost in its sole discretion.

Table of Contents

Conditions to Completion of the Merger

Cullen/Frost's and Horizon's obligations to complete the merger are subject to the satisfaction or written waiver, where permissible, of a number of conditions, including the following:

the merger agreement, the plan of merger and the merger must be approved by the requisite vote of holders of Horizon's common stock;

the Cullen/Frost common stock that is to be issued in the merger must be approved for listing on the NYSE and the registration statement filed with the SEC of which this proxy statement-prospectus is a part must be effective;

the required regulatory approvals must be obtained without any conditions that could have a material adverse effect on Cullen/Frost or materially restrict Cullen/Frost or any of its subsidiaries in connection with the transactions contemplated by the merger agreement or with respect to the business or operations of Cullen/Frost or any of its subsidiaries and any waiting periods required by law must expire;

there must be no government action or other legal restraint or prohibition preventing completion of the merger;

the aggregate value at closing of the stock consideration divided by the total value of the closing consideration must be equal to or greater than 0.45;

Cullen/Frost must receive an opinion of Sullivan & Cromwell LLP and Horizon must receive an opinion of Jenkins & Gilchrist, P.C., each dated as of the date the merger is completed, that, on the basis of facts, representations and assumptions set forth in each of these opinions, the merger will be treated as a tax-free reorganization under federal tax laws, Cullen/Frost and Horizon will be parties to the reorganization, and no gain or loss will be recognized by Horizon shareholders who receive shares of Cullen/Frost stock in exchange for all of their Horizon common stock, except with respect to any cash consideration or cash received instead of fractional interests;

the representations and warranties of the other party to the merger agreement must be true and correct and the other party to the merger agreement must have performed in all material respects all obligations required to be performed by it under the merger agreement;

with regard to Cullen/Frost's obligation (but not Horizon's), the number of dissenting shares must not exceed 15% of the outstanding shares of Horizon's common stock; and

with regard to Cullen/Frost's obligation (but not Horizon's), all outstanding options held by Horizon employees and directors to purchase Horizon common stock must be exercised and the price of the options must be paid in full in cash.

No assurance can be provided as to if, or when, the required regulatory approvals necessary to consummate the merger will be obtained, or whether all of the other conditions to the merger will be satisfied or waived by the party permitted to do so. As discussed below, if the merger is not completed on or before November 30, 2005, either Cullen/Frost or Horizon may terminate the merger agreement, unless the failure to complete the merger by that date is due to the failure of the party seeking to terminate the merger agreement to perform or observe its covenants and agreements set forth in the merger agreement.

Termination of the Merger Agreement

The merger agreement may be terminated at any time before or after the merger agreement, the plan of merger and the merger are approved by Horizon shareholders:

by our mutual consent;

by either of us if any governmental entity that must grant a regulatory approval has denied approval of the merger by final and nonappealable action, but not by a party whose action or inaction caused such denial;

Table of Contents

by either of us if the merger is not completed on or before November 30, 2005, but not by a party whose action or inaction caused such delay;

by either of us if the other party is in a continuing breach of a representation, warranty or covenant contained in the merger agreement, after 60 days' written notice to the breaching party, as long as that breach would also allow the non-breaching party not to complete the merger;

by Cullen/Frost (but not Horizon) if Horizon's board submits the merger agreement, the plan of merger and the merger to its shareholders without a recommendation for approval or with special and materially adverse qualifications on the approval, or if the board otherwise withdraws or materially and adversely modifies its recommendation for approval;

by Cullen/Frost (but not Horizon) if Horizon's board recommends an acquisition proposal other than the merger, or if Horizon's board negotiates or authorizes negotiations with a third party regarding an acquisition proposal other than the merger and those negotiations continue for at least five business days, except that negotiations will not include the request and receipt of information from any person that submits an acquisition proposal, or discussions regarding such information for the sole purpose of ascertaining the terms of the acquisition proposal and determining whether Horizon's board will in fact engage in or authorize negotiations;

by Cullen/Frost (but not Horizon), upon five days' prior written notice, if a continuing violation, breach or default has occurred under a voting agreement; or

by Cullen/Frost (but not Horizon), if the number of dissenting shares exceeds 15% of the outstanding shares of Horizon common stock.

In addition, Horizon (but not Cullen/Frost) may terminate the merger agreement if the sum of the total merger consideration and the special dividend that Horizon may pay is less than \$105,000,000, subject to the following: if Horizon elects to exercise this termination right, it will give Cullen/Frost prompt written notice (which may be withdrawn at any time). For a seven-day period commencing with Cullen/Frost's receipt of the notice, Cullen/Frost will have the option to increase the total merger consideration by increasing the aggregate cash consideration so that, as a result of the increase, the sum of the aggregate amount of the special dividend and the total merger consideration is \$105,000,000. In calculating the total merger consideration, the original measurement price will be used and there will be no adjustments to reflect subsequent fluctuations in the price of Cullen/Frost stock. Unless and until Cullen/Frost has exercised this option in the seven-day period, the closing of the merger shall not occur.

If Cullen/Frost elects to exercise the option, it must give Horizon prompt written notice of the election and the revised amount of the aggregate cash consideration. Upon Cullen/Frost's election,

no termination will occur;

the merger agreement will remain in full force and effect in accordance with its terms (except the modification to the amount of the aggregate cash consideration); and

the closing of the merger will occur on the third business day following Cullen/Frost's election.

If Cullen/Frost does not elect to exercise its option within the seven-day period, the merger agreement will terminate.

The merger agreement also provides that Horizon must pay Cullen/Frost a fee equal to \$3,750,000 in the following circumstances:

if Horizon enters into an agreement to engage in a competing acquisition proposal with any person other than Cullen/Frost or any of Cullen/Frost's subsidiaries;

Table of Contents

if Horizon authorizes, recommends, proposes (or publicly announces its intention to authorize, recommend or propose) an agreement to engage in a competing acquisition proposal with any such person or its board recommends that Horizon's shareholders approve or accept such competing acquisition proposal; or

if any person, other than Cullen/Frost or its subsidiaries, acquires beneficial ownership or the right to acquire beneficial ownership of 33 1/3% or more of the outstanding shares of Horizon common stock;

and, such event occurs before or on:

the 12-month anniversary of a fee extension event, which is described below, if a fee extension event occurs as a result of the termination of the merger agreement; or

the date of the termination of the merger agreement, if a fee extension event does not occur as a result of the termination of this agreement.

A fee extension event occurs if the merger agreement is terminated:

by either Horizon or Cullen/Frost because Horizon's shareholders fail to approve the merger agreement, the plan of merger or the merger;

by either Horizon or Cullen/Frost because the merger is not completed on or before November 30, 2005, unless the reason for the delay is Cullen/Frost's failure to obtain the requisite government approval because of conditions pertaining solely to Cullen/Frost;

by Cullen/Frost because Horizon's board submits the merger agreement, the plan of merger and the merger to its shareholders without a recommendation for approval or with special and materially adverse qualifications on the approval, or if the board otherwise withdraws or materially and adversely modifies its recommendation for approval;

by Cullen/Frost because Horizon's board recommends an acquisition proposal other than the merger, or if Horizon's board negotiates or authorizes negotiations with a third party regarding an acquisition proposal other than the merger and those negotiations continue for at least five business days; and

by Cullen/Frost because:

Horizon is in a continuing breach of a representation, warranty or covenant contained in the merger agreement, after 60 days written notice to Cullen/Frost, and that breach also allows Cullen/Frost not to complete the merger;

a continuing violation, breach or default has occurred under a voting agreement; or

the number of dissenting shares exceeds 15% of the outstanding shares of Horizon common stock;

and, in each of the three situations described above, prior to such termination, a competing acquisition proposal was made or any person publicly announced an intention (whether or not conditional) to make such a proposal.

Waiver and Amendment of the Merger Agreement

At any time before completion of the merger, either Cullen/Frost or Horizon may, to the extent legally allowed, waive in writing compliance by the other with any provision contained in the merger agreement. Subject to compliance with applicable law, we may amend the merger agreement by a written agreement at any time before or after Horizon's shareholders approve the merger agreement, the plan of merger or the merger, except that if Horizon's shareholders have given their approval, there may not be any amendment of the merger agreement that would require the items to be resubmitted to Horizon's shareholders.

Cullen/Frost may also change the structure of the merger, as long as any change does not change the amount or type of consideration to be received by Horizon shareholders and the holders of employee or director options

Table of Contents

to purchase Horizon common stock, does not adversely affect the timing of completion of the merger, does not adversely affect the tax consequences of the merger to Horizon's shareholders and does not cause any of the conditions to complete the merger to be incapable of being satisfied.

Regulatory Approvals Required for the Merger

We have agreed to use all reasonable best efforts to obtain the regulatory approvals required for the merger. We refer to these approvals, along with the expiration of any statutory waiting periods related to these approvals, as the requisite regulatory approvals. These include approval from the Board of Governors of the Federal Reserve System, or Federal Reserve Board; the Office of the Comptroller of the Currency, or the OCC; and the Texas Department of Banking. We have either filed or intend to complete the filing promptly after the date of this proxy statement-prospectus of applications and notifications to obtain the requisite regulatory approvals. The merger cannot proceed in the absence of the requisite regulatory approvals. We cannot assure you as to whether or when the requisite regulatory approvals will be obtained, and, if obtained, we cannot assure you as to the date of receipt of any of these approvals, the terms thereof or the absence of any litigation challenging them. Likewise, we cannot assure you that the U.S. Department of Justice or a state attorney general will not attempt to challenge the merger on antitrust grounds, or, if such a challenge is made, as to the result of that challenge.

We are not aware of any other material governmental approvals or actions that are required prior to the parties' completion of the merger other than those described below. We presently contemplate that if any additional governmental approvals or actions are required, these approvals or actions will be sought. However, we cannot assure you that any of these additional approvals or actions will be obtained.

Federal Reserve Board. Completion of the merger is subject to approval by the Federal Reserve Board pursuant to Section 3 of the Bank Holding Company Act of 1956, as amended, or receipt from the Federal Reserve Board of a waiver of this approval.

The Federal Reserve Board is prohibited from approving any merger transaction under Section 3 of the Bank Holding Company Act (1) that would result in a monopoly or be in furtherance of any combination or conspiracy to monopolize, or to attempt to monopolize, the business of banking in any part of the United States, or (2) whose effect in any section of the United States may be to substantially lessen competition, or to tend to create a monopoly or in any other manner restrain trade, unless the Federal Reserve Board finds that the anti-competitive effects of the merger transaction are clearly outweighed in the public interest by the probable effect of the merger transaction in meeting the convenience and needs of the communities to be served.

In addition, among other things, in reviewing the merger, the Federal Reserve Board must consider (1) the financial and managerial resources and future prospects of Cullen/Frost and its subsidiary banks and Horizon, (2) the convenience and needs of the communities to be served, including the record of performance under the Community Reinvestment Act of 1977, as amended, (3) the companies' effectiveness in combating money-laundering activities and (4) Cullen/Frost's and its subsidiaries' record of compliance with applicable community reinvestment laws.

Furthermore, the Bank Holding Company Act and Federal Reserve Board regulations require published notice of, and the opportunity for public comment on, the Federal Reserve Board application and notification, and authorize the Federal Reserve Board to hold a public hearing or meeting if the Federal Reserve Board determines that a hearing or meeting would be appropriate. Any hearing or meeting or comments provided by third parties could prolong the period during which the application and notification are under review by the Federal Reserve Board.

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Pursuant to the Bank Holding Company Act, a transaction approved by the Federal Reserve Board is subject to a waiting period ranging from 15 to 30 days, during which time the U.S. Department of Justice may challenge the merger transaction on antitrust grounds and seek appropriate relief. The commencement of an antitrust action

Table of Contents

would stay the effectiveness of such an approval unless a court specifically ordered otherwise. In reviewing the merger, the U.S. Department of Justice could analyze the merger's effect on competition differently than the Federal Reserve Board, and thus it is possible that the U.S. Department of Justice could reach a different conclusion than the Federal Reserve Board regarding the merger's effects on competition. A determination by the U.S. Department of Justice not to object to the merger does not prevent the filing of antitrust actions by private persons or state attorneys general.

OCC. Cullen/Frost has filed an application with the Office of the Comptroller of the Currency to approve the establishment by Cullen/Frost of a wholly owned interim bank subsidiary and the merger of Horizon into the interim bank subsidiary under the Bank Merger Act and the merger of the interim bank subsidiary into The Frost National Bank under the Bank Merger Act. The OCC approved Cullen/Frost's application on July 19, 2005. In evaluating an application filed under the Bank Merger Act, the OCC uses substantially the same criteria as the Federal Reserve Board as described above.

Texas Department of Banking. The merger is also subject to certain filing and other requirements of the Texas Department of Banking. Consummation of the merger requires prior notice to the Texas Department of Banking under 7 Texas Administrative Code § 15.107.

Stock Exchange Listing

Cullen/Frost has agreed to use all reasonable best efforts to list the Cullen/Frost common stock to be issued in the merger on the NYSE. It is a condition to the completion of the merger that those shares be approved for listing on the NYSE, subject to official notice of issuance. Following the merger, Cullen/Frost expects that its common stock will continue to trade on the NYSE under the symbol *CFR*.

Restrictions on Resales by Affiliates

The offer and sale of shares of Cullen/Frost common stock that Horizon shareholders will own following the merger have been registered under the Securities Act of 1933. They may be traded freely and without restriction by you if you are not deemed to be an affiliate of Cullen/Frost, Horizon or the combined company under the Securities Act. An affiliate of Cullen/Frost, Horizon or the combined company, as defined by the rules under the Securities Act, is a person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, Cullen/Frost, Horizon or the combined company, as the case may be. Persons that are affiliates of Cullen/Frost or Horizon at the time the merger is submitted for vote of the Horizon shareholders or of the combined company following completion of the merger may not sell their shares of Cullen/Frost common stock acquired in the merger except pursuant to an effective registration statement under the Securities Act or an applicable exemption from the registration requirements of the Securities Act, including Rules 144 and 145 under the Securities Act. Affiliates generally include directors, executive officers and beneficial owners of 10% or more of any class of capital stock.

This proxy statement-prospectus does not cover any resale of Cullen/Frost common stock received in the merger by any person that may be deemed to be an affiliate of Horizon, Cullen/Frost or the combined company.

Dissenters' Rights of Appraisal of Horizon Shareholders

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The following discussion is a summary of the material statutory procedures to be followed by a holder of Horizon common stock in order to dissent from the merger and perfect appraisal rights. Section 215a of Title 12 of the United States Code generally provides that the shareholders of a state bank being merged into a national bank generally have national bank type dissenters' rights. However, Section 215a(d) of Title 12 of the United States Code provides that the appraisal of such shares of stock in any state bank shall be determined in the manner prescribed by the law of the state in such cases, rather than as provided in Section 215a, if such provision is made by the state's law and that no such merger shall be in contravention of the law of the state under which such bank is incorporated. In that regard, § 32.501 of the Texas Finance Code provides that a state

Table of Contents

bank may merge into another financial institution, but the merger by the state bank must be made and approval of its board, shareholders, or participants must be obtained in accordance with the TBCA as if the state bank were a domestic corporation and all other parties to the transaction, if any, were foreign corporations and other entities. Accordingly, if you want to exercise appraisal rights, you should review carefully Sections 5.11, 5.12 and 5.13 of the TBCA and are urged to consult a legal advisor before electing or attempting to exercise these rights because the failure to precisely follow all the necessary legal requirements may result in the loss of such appraisal rights. This description is not complete and is qualified in its entirety by the full text of the relevant provisions of the TBCA, which are reprinted in their entirety as Appendix D to this proxy statement-prospectus. Horizon shareholders seeking to exercise appraisal rights must strictly comply with these provisions.

Shareholders of Horizon as of the record date may exercise dissenters' rights in connection with the merger by complying with Sections 5.11, 5.12 and 5.13 of the TBCA. Consummation of the merger is subject to, among other things, the holders of no more than 15% of the outstanding Horizon common stock electing to exercise their dissenters' rights. By exercising dissenters' rights, you will be entitled to receive, if the merger is consummated, the fair value of the shares of Horizon common stock that you owned as of the day immediately prior to the date of the special meeting. This value may differ from the value of the consideration that you would otherwise receive in the merger. The following is a summary of the statutory procedures that you must follow in the event you elect to exercise your dissenters' rights under the TBCA. This summary is not complete and is qualified in its entirety by reference to Sections 5.11, 5.12 and 5.13 of the TBCA, the text of which is set forth in full in Appendix D to this proxy statement-prospectus.

How to exercise and perfect your right to dissent. In order to be eligible to exercise your right to dissent to the merger and to receive, upon compliance with the statutory requirements summarized below, the fair value of your shares of Horizon common stock as of the day immediately preceding the special meeting, excluding any appreciation or depreciation in anticipation of the merger:

you must, prior to the special meeting, provide Horizon with a written objection to the merger that states that you intend to exercise your right to dissent if the merger is consummated and that provides an address to which a notice about the outcome of the vote on the merger may be sent; and

Any written objection with notice of intent to exercise the right of dissent should be addressed as follows:

Horizon Capital Bank
 1021 Main Street, Suite 100
 Houston, Texas 77002
 Attention: Cashier

you must not vote your shares of Horizon common stock in favor of the merger agreement and must not direct the voting representative to vote in favor of the merger agreement if your shares are subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement.

You should sign every communication.

In order to exercise properly dissenters' rights, you must refrain from voting by proxy or in person in favor of the merger agreement. A shareholder who executes and returns an unmarked proxy will have his or her shares voted for the merger agreement and, as a consequence thereof, such shareholder will be foreclosed from exercising rights as a dissenting shareholder.

Your demand for payment. If you comply with the two items described above and the merger is completed, Cullen/Frost, as the surviving corporation, will within 10 days of the completion of the merger deliver or mail to all holders of Horizon common stock who satisfied the foregoing requirements a written notice that the merger has been completed. You must, within 10 days of the date the notice was sent to you by Cullen/Frost, send a written demand to Cullen/Frost for payment of the fair value of your shares of Horizon common

Table of Contents

stock. Such written demand must state the number and class of the shares that you owned as of the record date and your estimate of the fair value of the shares. The fair value of your shares of Horizon common stock will be the value of the shares on the day immediately preceding the special meeting, excluding any appreciation or depreciation in anticipation of the merger. If you should fail to make such a demand within the ten-day period, you will lose the right to dissent and will be bound by the terms of the merger agreement. In order to preserve dissenters' rights, you must also submit your stock certificates to Cullen/Frost within 20 days of making a demand for payment for notation thereon that such demand has been made. The failure to do so shall, at Cullen/Frost's option, terminate your rights to dissent and appraisal unless a court of competent jurisdiction for good and sufficient cause shown shall direct otherwise. Any notice addressed to Cullen/Frost must be addressed to:

Frost National Bank
100 West Houston Street
San Antonio, Texas 78205

(210) 220-4011

Attention: Phillip D. Green

Cullen/Frost's action upon receipt of your demand for payment. Within 20 days of receiving your written demand for payment and estimate of the fair value of your shares of Horizon common stock, Cullen/Frost must mail or deliver to you a written notice that either:

accepts the amount declared in the demand and agrees to pay that amount within 90 days after the effective date of the merger and upon surrender of your certificate representing your shares of Horizon common stock; or

states Cullen/Frost's estimate of the fair value of the shares and offers to pay the amount of that estimate within 90 days after the effective date of the merger and upon surrender of your certificate representing your shares of Horizon common stock and upon receipt of notice within 60 days after the completion of the merger that you agree to accept Cullen/Frost's estimate.

Payment of the fair value of your shares of Horizon common stock upon agreement of an estimate. If you and Cullen/Frost agree upon the fair value of your shares of Horizon common stock within 60 days after completion of the merger, Cullen/Frost shall pay the amount of the agreed value to you upon receipt of your duly endorsed share certificates within 90 days of the completion of the merger. Upon payment of the agreed fair value, you will cease to have any interest in such shares.

Commencement of legal proceedings if a demand for payment remains unsettled. If you and Cullen/Frost have not agreed upon the fair value of your shares of Horizon common stock within the 60-day period immediately subsequent to the completion of the merger, then either you or Cullen/Frost may, within 60 days of the expiration of the 60-day period after the effective date of the merger, file a petition in any court of competent jurisdiction in Harris County, Texas, asking for a finding and determination of the fair value of the shares. If filed by a shareholder, service of the petition shall be had upon Cullen/Frost as the surviving corporation and Cullen/Frost must within 10 days after service file with the clerk of the court a list with the names and addresses of all shareholders who have demanded payment and not reached agreement as to the fair value. If filed by Cullen/Frost, the petition must be accompanied by such a list. The clerk of the court shall give notice to Cullen/Frost and all shareholders named on the list of the time and place fixed for the hearing of the petition. After the hearing of the petition, the court shall determine the shareholders who have complied with the statutory requirements and have become entitled to the valuation of and payment for their shares, and the court shall appoint one or more qualified appraisers to determine the fair value.

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The appraisers may examine the books and records of Horizon and shall afford the interested parties a reasonable opportunity to submit pertinent evidence. The appraisers are to make a determination of the fair value upon such examination as they deem proper. The appraisers shall file a report of the value in the office of the clerk of the court, notice of which shall be given to the parties in interest. The parties in interest may submit

Table of Contents

exceptions to the report, which will be heard before the court upon the law and the facts. The court shall adjudge the fair value of the shares of the shareholders entitled to payment for their shares and shall direct the payment thereof by Cullen/Frost as the surviving corporation, together with interest which shall begin to accrue 91 days after the effective date of the merger. However, the judgment shall be payable only upon and simultaneously with surrender of the certificates representing your shares, duly endorsed. Upon Cullen/Frost's payment of the judgment, you shall cease to have any interest in the shares. The court shall allow the appraisers a reasonable fee as court costs, and all court costs shall be allotted between the parties in the manner that the court determines to be fair and equitable, with the respective parties to bear their own attorneys' fees. Any shareholder who has demanded payment for such holder's shares may withdraw such demand at any time before payment or before any petition has been filed for valuation by the court. A demand may not be withdrawn after payment or, unless Cullen/Frost consents, after such a petition has been filed in court. After a demand has been withdrawn, the shareholder and all persons claiming under the shareholder shall be conclusively presumed to have approved the Agreement and shall be bound by its terms.

Termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement

The following discussion describes certain provisions of the Bay Area Bank and Trust Voting and Stock Restriction Agreement. We urge you to read the Bay Area Bank and Trust Voting and Stock Restriction Agreement, which is attached as Appendix B and incorporated by reference into this document, carefully and in its entirety.

The Bay Area Bank and Trust Voting and Stock Restriction Agreement provides, among other things, that shares of Horizon common stock subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement (and such successor stock as is received by parties to the Bay Area Bank and Trust Voting and Stock Restriction Agreement in any other corporation or entity by virtue of an exchange of capital, including the merger), are subject to certain restrictions on disposition and on exercise of voting rights attaching thereto. In particular, parties to the Bay Area Bank and Trust Voting and Stock Restriction Agreement may not sell, assign, exchange or otherwise dispose of their shares without having first offered those shares to other parties to the Bay Area Bank and Trust Voting and Stock Restriction Agreement following the procedures established in the Bay Area Bank and Trust Voting and Stock Restriction Agreement. In addition, under circumstances specified in the Bay Area Bank and Trust Voting and Stock Restriction Agreement, parties to the Bay Area Bank and Trust Voting and Stock Restriction Agreement vest the voting representative or his designee with a proxy to vote their shares of Horizon common stock subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement in accordance with the directions received through a special meeting called in accordance with the terms of the Bay Area Bank and Trust Voting and Stock Restriction Agreement.

Horizon shareholders subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement are being asked to consent in writing to the termination of the Bay Area Bank and Trust Voting and Stock Restriction Agreement by means of voting for Item 2 on the blue proxy card. The consent in writing of Horizon shareholders representing at least 65% (or 557,409 shares) of the shares of Horizon common stock subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement is required to terminate the Bay Area Bank and Trust Voting and Stock Restriction Agreement.

Voting Agreements

The following discussion describes the material provisions of the voting agreements. We urge you to read the form of the voting agreement, which is attached as Appendix A, Annex 1 and incorporated by reference into this document, carefully and in its entirety.

In connection with the execution of the merger agreement, and as a condition to Cullen/Frost's willingness to enter into the merger agreement, the beneficial owners of an aggregate of 33.2% of Horizon's outstanding common stock have entered into voting agreements with Cullen/Frost.

Table of Contents

Under the voting agreement, each such shareholder has agreed, with respect to the shares of Horizon common stock controlled by him or her, that at any meeting of the Horizon shareholders or action called pursuant to the Bay Area Bank and Trust Voting and Stock Restriction Agreement in relation to the merger agreement and transactions contemplated by the merger agreement and at the special shareholders meeting or any other meeting or action of Horizon shareholders called in relation to such matters, he or she shall vote or cause to be voted such shares as follows:

in favor of the adoption of the merger agreement, the plan of merger and the transactions contemplated by the merger agreement or the plan of merger including the merger; and

against any competing acquisition proposal or any action that is intended or could reasonably be expected to materially impede, interfere with, delay or materially and adversely affect the merger or any other transactions contemplated by the merger agreement or the plan of merger.

The agreement also contains restrictions on the sale, transfer, assignment, pledge or other disposition of the shareholder's shares unless the shareholder receives an irrevocable proxy in a form satisfactory to Cullen/Frost regarding the merger agreement, the plan of merger, the merger and any other matters required to be approved to consummate the merger and the transactions contemplated by the merger agreement or plan of merger or the transferee signs a voting agreement identical in all material respects.

Each shareholder has also agreed to use all reasonable best efforts to take all necessary action under the Bay Area Bank and Trust Voting and Stock Restriction Agreement, including providing direction to the voting representative regarding how to vote stock subject to the agreement and terminating the agreement.

The voting agreement will terminate upon the three-month anniversary of the termination of the merger agreement.

The voting agreement entered into between Cullen/Frost and Jack L. Thetford, the voting representative under the Bay Area Bank and Trust Voting and Stock Restriction Agreement, contains additional provisions regarding voting of the shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement. With regard to voting on the merger agreement, the plan of merger, the merger and any other matters required to be approved to consummate the merger and the transactions contemplated by the merger agreement or plan of merger, collectively referred to as merger matters and with regard to voting on any competing acquisition proposal or any action that is intended or could reasonably be expected to materially impede, interfere with, delay or materially and adversely affect the merger or any other transactions contemplated by the merger agreement or the plan of merger, collectively referred to as acquisition proposal matters, Mr. Thetford has agreed to vote all such stock for or against the merger matters or the acquisition proposal matters, as the case may be, in the same proportion as he has received for or against directions and has agreed to vote any such stock for which the shareholder has exercised his or her right to dissent against the merger matters.

Table of Contents**PRICE RANGE OF COMMON STOCK AND DIVIDENDS****Cullen/Frost**

Cullen/Frost common stock is traded on the NYSE under the symbol **CFR**. The following table shows the high and low reported intra-day sales prices per share of Cullen/Frost common stock as reported by the NYSE and the cash dividends declared per share.

	Sales Price		Cash
	Per Share		Dividends
	High	Low	Per Share
2003			
First Quarter	\$ 33.90	\$ 29.05	\$ 0.22
Second Quarter	34.60	30.05	0.24
Third Quarter	39.00	32.00	0.24
Fourth Quarter	41.06	37.31	0.24
2004			
First Quarter	43.47	38.84	0.240
Second Quarter	45.10	41.05	0.265
Third Quarter	46.50	41.85	0.265
Fourth Quarter	49.20	45.90	0.265
2005			
First Quarter	48.97	43.87	0.265
Second Quarter	47.99	41.90	0.300
Third Quarter (through July 26, 2005)	49.61	47.07	n/a

Past price performance is not necessarily indicative of likely future performance. Because market prices of Cullen/Frost common stock will fluctuate, you are urged to obtain current market prices for shares of Cullen/Frost common stock.

Cullen/Frost may repurchase shares of its common stock in accordance with applicable legal guidelines. The actual amount of shares repurchased will depend on various factors, including: market conditions; legal limitations and considerations affecting the amount and timing of repurchase activity; the company's capital position; internal capital generation; and alternative potential investment opportunities. Federal law prohibits Cullen/Frost from purchasing shares of its common stock from the date this proxy statement-prospectus is first mailed to shareholders until completion of the special meeting of shareholders and during the ten-day-trading period ending on the trading day prior to the merger's closing or until the average price of Cullen/Frost's common stock is assessed for purposes of the merger agreement.

After the merger, Cullen/Frost currently expects to pay (when, as and if declared by Cullen/Frost's board of directors out of funds legally available) regular quarterly cash dividends of \$0.30 per share, in accordance with Cullen/Frost's current practice. In the ordinary course of business, Cullen/Frost is dependent upon dividends from its subsidiary, The Frost National Bank, to provide funds for the payment of dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of The Frost National Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years. The merger agreement limits the cash dividends that may be paid on Horizon common stock pending

completion of the merger to the special dividend. See Conduct of Business Pending the Merger beginning on page 38. The declaration and payment of dividends pending the merger is set forth in the merger agreement.

Horizon

Presently, there is no active trading market for Horizon common stock, and no market for Horizon common stock is expected to develop if the merger does not occur. No registered broker/dealer makes a market in Horizon

Table of Contents

common stock, and Horizon common stock is not listed or quoted on any stock exchange or automated quotation system. Horizon acts as the transfer agent and registrar for its stock. As of the record date, there were approximately 345 holders of the Horizon common stock.

Occasionally, Horizon becomes aware of trades of shares of its common stock and the prices at which these trades were executed. The following table sets forth the high and low sales price (to the extent known to management of Horizon) for trades in its common stock for each quarter during 2003 and 2004 and for the first two quarters of 2005:

	<u>Low</u>	<u>High</u>	<u>Dividends Declared</u>
2003			
First Quarter	\$ 44.00	\$ 46.82	\$ 0.00
Second Quarter	44.00	44.00	0.70
Third Quarter	44.00	44.00	0.00
Fourth Quarter	47.00	47.00	0.00
2004			
First Quarter	n/a	n/a	1.00
Second Quarter	48.00	48.00	0.00
Third Quarter	n/a	n/a	0.00
Fourth Quarter	n/a	n/a	0.00
2005			
First Quarter	n/a	n/a	0.00
Second Quarter	n/a	n/a	0.00
Third Quarter (through July 26, 2005)	n/a	n/a	0.00

The prices given above represent actual trades but may not include all trades that occurred during the reported period. The prices given are the result of limited trading and may not be representative of the actual fair market value of the Horizon common stock.

Horizon is not obligated to register its common stock or, upon any registration, to create a market for its shares. Thus, a holder of Horizon common stock may be unable to liquidate his or her investment and must be able to bear the economic risk of such investment indefinitely.

As a Texas-chartered banking association, Horizon's ability to pay dividends is restricted by certain laws and regulations. Under the Texas Finance Code, Horizon generally may not pay a dividend that would reduce its capital or surplus without the prior approval of the Texas Banking Commissioner. All dividends must be paid out of net profits then on hand, after deducting expenses, including losses and provisions for loan losses. As of March 31, 2005, Horizon could pay a dividend of at least \$10.1 million without the prior approval of the Texas Banking Commissioner.

Horizon is also subject to certain restrictions on paying of dividends as a result of the requirement that it maintain an adequate level of capital in accordance with guidelines promulgated by the FDIC.

The FDIC has adopted risk-based capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions, such as letters of credit and recourse arrangements, which are recorded as off-balance sheet items. Under these capital guidelines, the FDIC assigns a risk weight factor of

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0% to 100% to each category of assets based generally on the perceived credit risk of the asset class. The risk weights are then multiplied by the corresponding asset balances to determine a risk weighted asset base. At least half of a bank's risk-based capital must consist of core (Tier 1) capital, which is comprised of (1) common shareholders' equity (includes common stock and any related surplus, undivided profits, disclosed capital reserves that represent a segregation of undivided profits, and foreign currency translation adjustments; less net unrealized gains or losses on available for-sale portfolio); (2) certain noncumulative perpetual preferred stock and related

Table of Contents

surplus; and (3) minority interests in the equity capital accounts of consolidated subsidiaries, and excludes goodwill and intangible assets. The remainder, supplementary (Tier 2) capital, may consist of (1) allowance for loan and lease losses, up to a maximum of 1.25% of risk weighted assets; (2) certain perpetual preferred stock and related surplus; (3) hybrid capital instruments; (4) perpetual debt; (5) mandatory convertible debt securities; (6) term subordinated debt; (7) intermediate term preferred stock; and (8) certain unrealized holding gains on equity securities. Total risk based capital is determined by combining core capital and supplementary capital.

Under the FDIC's regulatory capital guidelines, Horizon must maintain a Tier 1 capital to adjusted total assets ratio of at least 4.0%, a Tier 1 capital to risk weighted assets ratio of at least 4.0%, and a total risk based capital to risk weighted assets ratio of at least 8.0%. As of June 30, 2005, Horizon had a ratio of Tier 1 capital to adjusted total assets of 9.5%, a ratio of Tier 1 capital to risk-weighted assets of 11.7% and a ratio of total risk based capital to risk-weighted assets of 12.7%. As of that date, Horizon could pay a dividend of \$11.3 million and still meet these minimum capital requirements.

Finally, the FDIC has the authority to prohibit Horizon from paying a dividend when the FDIC determines that the dividend would be an unsafe or unsound banking practice.

Table of Contents

INFORMATION ABOUT CULLEN/FROST AND HORIZON

Cullen/Frost

Cullen/Frost, a Texas business corporation incorporated in 1977, is a financial holding company and a bank holding company headquartered in San Antonio, Texas that provides, through its subsidiaries (collectively referred to as the Corporation), a broad array of products and services throughout 12 Texas markets. The Corporation offers commercial and consumer banking services, as well as trust and investment management, investment banking, insurance brokerage, leasing, asset-based lending, treasury management and item processing services. At June 30, 2005, Cullen/Frost had consolidated total assets of \$10.0 billion and was one of the largest independent bank holding companies headquartered in the State of Texas.

The Corporation's philosophy is to grow and prosper, building long-term relationships based on top quality service, high ethical standards, and safe, sound assets. The Corporation operates as a locally oriented, community-based financial services organization, augmented by experienced, centralized support in select critical areas. The Corporation's local market orientation is reflected in its financial service centers and regional advisory boards, which are comprised of local business persons, professionals and other community representatives, that assist the Corporation's financial centers in responding to local banking needs. Despite this local market, community-based focus, the Corporation offers many of the products available at much larger money-center financial institutions.

The Corporation serves a wide variety of industries including, among others, energy, manufacturing, services, construction retail, telecommunications, healthcare, military and transportation. The Corporation's customer base is similarly diverse. The Corporation is not dependent upon any single industry or customer.

The Corporation's operating objectives include expansion, diversification within its markets, growth of its fee-based income, and growth internally and through acquisitions of financial institutions, branches and financial services businesses. The Corporation seeks merger or acquisition partners that are culturally similar and have experienced management and possess either significant market presence or have potential for improved profitability through financial management, economies of scale and expanded services. The Corporation regularly evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Corporation's tangible book value and net income per common share may occur in connection with any future transaction.

Cullen/Frost's executive offices are located at 100 West Houston Street, San Antonio, Texas 78205, and its telephone number is (210) 220-4011.

Horizon

Horizon is a Texas banking association with its main office in Houston, Texas. Horizon has no holding company and no operating subsidiaries. Horizon provides traditional deposit, lending and mortgage products and services to its commercial and retail customers through five full service branch offices (with a sixth location scheduled to open summer of 2005) located in Houston and the Galveston Bay Area. Horizon was originally formed as a community bank in 1963. At June 30, 2005, Horizon had total assets of \$395.3 million, total deposits of \$294.6 million, a Tier 1

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risk-based capital ratio of 11.7%, a total risk-based capital ratio of 12.7% and a leverage ratio of 9.4%.

Horizon s executive offices are located at 1021 Main Street, Suite 100, Houston, Texas 77002, and its telephone number is (713) 679-2600.

Table of Contents

Selected Financial Data. The following selected financial data is derived from Horizon's audited financial statements as of December 31, 2004 and 2003 and for the three years ended December 31, 2004. Dollar amounts in thousands.

	Year Ended December 31,		
	2004	2003	2002
Statements of Income			
Interest income:			
Interest and fees on loans	\$ 18,068	\$ 16,275	\$ 13,073
Interest and dividends on securities	798	693	721
Interest on federal funds sold and due from banks	397	360	189
	<u>19,263</u>	<u>17,328</u>	<u>13,983</u>
Interest expense:			
Deposits	2,744	2,670	2,840
Federal Home Loan Bank advances and other borrowings	1,883	1,846	1,309
Securities sold under agreements to repurchase	19	18	30
	<u>4,646</u>	<u>4,534</u>	<u>4,179</u>
Net interest income	14,617	12,794	9,804
Provision for loan losses	555	978	1,010
	<u>14,062</u>	<u>11,816</u>	<u>8,794</u>
Noninterest income:			
Service charges on deposit accounts	1,016	1,003	942
ATM & debit card fees	109	106	143
Net realized gains on sales of available-for-sale securities		167	143
Other income	262	304	331
	<u>1,387</u>	<u>1,580</u>	<u>1,559</u>
Noninterest expense:			
Salaries and employee benefits	6,413	5,775	5,060
Occupancy	796	745	643
Data processing	509	423	475
Furniture, equipment and vehicles	507	515	400
Communications	448	387	195
Professional fees	347	282	222
Stationary and supplies	162	129	103
Insurance, FDIC and state examination expense	160	163	145
Directors' fees and expenses	198	181	129
Correspondent service charges	151	82	65
Other expenses	811	760	816
	<u>10,502</u>	<u>9,442</u>	<u>8,253</u>
Income before provision for income taxes	4,947	3,954	2,100
Provision for income taxes	1,600	1,253	597

Net income	\$ 3,347	\$ 2,701	\$ 1,503
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Table of Contents

	As of December 31,	
	2004	2003
Balance Sheets		
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 30,725	\$ 21,632
Federal funds sold	18,223	19,338
	<u>48,948</u>	<u>40,970</u>
Total cash and cash equivalents	48,948	40,970
Securities available-for-sale, at fair value	23,819	42,824
Securities held to maturity, at amortized cost	200	200
Equity securities	3,270	2,878
Loans	297,489	270,260
Less: Allowance for loan losses	(2,975)	(2,700)
	<u>294,514</u>	<u>267,560</u>
Net loans	294,514	267,560
Premises and equipment, net	6,448	5,363
Foreclosed real estate, net of valuation allowance		416
Accrued interest receivable	1,204	1,169
Other assets	1,627	1,828
	<u>380,030</u>	<u>363,208</u>
Total assets	\$ 380,030	\$ 363,208
Liabilities		
Deposits:		
Noninterest bearing	\$ 101,208	\$ 89,582
Interest bearing	182,696	191,961
	<u>283,904</u>	<u>281,543</u>
Total deposits	283,904	281,543
Federal Home Loan Bank advances	56,000	44,000
Securities sold under agreements to repurchase	3,759	4,288
Treasury, Tax & Loan note	1,000	1,000
Accrued interest payable	620	546
Other liabilities	705	176
	<u>345,988</u>	<u>331,553</u>
Total liabilities	345,988	331,553
Shareholders Equity		
Preferred stock		
Common stock	4,125	4,125
Additional paid-in capital	20,748	20,739
Retained earnings	9,001	6,479
Accumulated other comprehensive income, net	168	317
Common stock in treasury, at cost		(5)
	<u>34,042</u>	<u>31,655</u>
Total shareholders equity	34,042	31,655
Total liabilities and shareholders equity	\$ 380,030	\$ 363,208

Table of Contents

Horizon Share Ownership Information. The following table sets forth certain information regarding the ownership of Horizon common stock by each of the following as of the record date:

the directors of Horizon;

Horizon's Chief Executive Officer;

the 5 other most-highly compensated executive officers of Horizon;

any person (including any group) who is known to Horizon to be the beneficial owner of more than 5% of Horizon's common stock; and

the directors and executive officers of the Horizon as a group:

<u>Name</u>	<u>Position</u>	<u>Amount of beneficial ownership⁽¹⁾</u>	<u>Percent of class⁽²⁾</u>
Joseph F. Archer	Director	11,000	1.16%
Gale E. Burkett	Director	6,000 ⁽³⁾	*
Philip Davis	Senior Vice President	10,515 ⁽⁴⁾	1.11
Robert R. Franklin, Jr.	President/Director	50,580	5.35
442 Hunterwood			
Houston, TX 77024			
Timothy Horan, Jr.	Director	5,034	*
Mike Jain	Director	17,086 ⁽⁵⁾	1.81
Charles Keever	Senior Vice President	17,230 ⁽⁶⁾	1.82
Tommy W. Lott	Director	20,000	2.12
Dennis M. Malloy	Director	30,000	3.17
David J. Master	Director	17,185 ⁽⁷⁾	1.82
Charles W. Miller	Director	15,000	1.59
Thomas W. Moss, Jr.	Director	9,044	*
Jerome J. Pennington	Director	6,712	*
Bruce W. Reed	Senior Vice President	15,343 ⁽⁸⁾	1.62
Aaron G. Schein	Director	13,629 ⁽⁹⁾	1.44
Jack L. Thetford	Chairman of the Board	857,551 ⁽¹⁰⁾	90.75
#3 Mariner			
Kemah, TX 77565			
Dennis Walsh	Senior Vice President	9,530 ⁽¹¹⁾	1.01
Directors and executive officers as a group		867,081	91.76

* Less than 1%.

(1) Unless otherwise indicated, shares are subject to the Bay Area Bank & Trust Voting and Stock Restriction Agreement, dated as of August 2, 1995, as amended. See footnote 10 to this table.

(2) Based on 944,966 shares of Horizon common stock issued and outstanding as of the record date.

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- (3) Shares are held jointly with L. Jean Burkett, Mr. Burkett's spouse.
- (4) Includes 9,530 shares held by Mr. Davis individually and 985 shares held for the benefit of Mr. Davis' individual retirement account.
- (5) Shares are held by Horizon Business Investment, of which Mr. Jain serves as General Partner.
- (6) Includes 913,930 shares held by Mr. Keever individually and 3,300 shares held for the benefit of Mr. Keever's individual retirement account.
- (7) Shares are held for the benefit of Mr. Master's individual retirement account.
- (8) Includes 13,030 shares held by Mr. Reed individually and 2,313 shares held for the benefit of Mr. Reed's individual retirement account.
- (9) Of such shares, 1,463 shares are held jointly with Nancy E. Schein, Mr. Schein's spouse, and 12,166 shares are held by a custodian for the benefit of Mr. Schein's individual retirement account.

Table of Contents

- (10) Includes 65,158 shares held by Mr. Thetford individually, 19,200 shares held for the benefit of Mr. Thetford's individual retirement account, and 1,300 shares held by Ann Thetford, Mr. Thetford's spouse. Jack L. Thetford serves as the sole voting representative under the Bay Area Bank and Trust Voting and Stock Restriction Agreement, dated as of August 2, 1995, as amended. Of the 944,966 shares of Horizon common stock issued and outstanding as of the record date, 857,551 shares, or 90.75%, are subject to this agreement. This agreement is to expire August 1, 2015. Under the terms of this agreement, Mr. Thetford, as voting representative, has the authority to vote the stock subject to such agreement at any meeting or on any issue with respect to which such shareholders would otherwise have the right to vote such stock, including proposals to dissolve or liquidate Horizon, to amend its articles of incorporation or bylaws, or to sell all or a major portion of its assets, or to merge or consolidate Horizon. But if Horizon would not be the surviving or resulting entity in such a transaction, then the voting representative is to call a meeting of such shareholders to determine how the voting representative is to vote with respect to that proposal. The voting representative is to vote such stock at the special meeting in accordance with the directions of such stockholders owning not less than 65% of the stock subject to such agreement. If the voting representative does not receive directions from such stockholders owning not less than 65% of the stock subject to such agreement, the voting representative may vote such stock as he deems appropriate in his judgment. The voting agreement entered into between Cullen/Frost and Mr. Thetford contains additional provisions regarding voting of the shares subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement. With regard to voting on the merger agreement, the plan of merger, the merger and any other matters required to be approved to consummate the merger and the transactions contemplated by the merger agreement or plan of merger, collectively referred to as merger matters and with regard to voting on any competing acquisition proposal or any action that is intended or could reasonably be expected to materially impede, interfere with, delay or materially and adversely affect the merger or any other transactions contemplated by the merger agreement or the plan of merger, collectively referred to as acquisition proposal matters, Mr. Thetford has agreed to vote all such stock for or against the merger matters or the acquisition proposal matters, as the case may be, in the same proportion as he has received for or against directions, either in person at the voting meeting or by proxy, and vote any such stock for which the shareholder has exercised his or her right to dissent against the merger matters.
- (11) Shares are not subject to the Bay Area Bank and Trust Voting and Stock Restriction Agreement.

Table of Contents

DESCRIPTION OF CULLEN/FROST CAPITAL STOCK

As a result of the merger, Horizon shareholders who receive shares of Cullen/Frost common stock in the merger will become shareholders of Cullen/Frost. Your rights as shareholders of Cullen/Frost will be governed by Texas law and the restated articles of incorporation and amended by-laws of Cullen/Frost. The following description of the material terms of Cullen/Frost's capital stock, including the common stock to be issued in the merger, reflects the anticipated state of affairs upon completion of the merger. We urge you to read the applicable provisions of Texas law, Cullen/Frost's restated articles of incorporation and amended by-laws and federal law governing bank holding companies carefully and in their entirety.

General

Cullen/Frost's authorized capital stock consists of 90,000,000 shares of Cullen/Frost common stock, and 10,000,000 shares of preferred stock, par value \$0.01 per share. As of June 30, 2005 there were 52,307,511 shares of Cullen/Frost common stock outstanding and no shares of Cullen/Frost preferred stock outstanding. In addition, on June 30, 2005, 5,290,275 shares of Cullen/Frost common stock were reserved for issuance upon conversion or exercise, exercise of stock options and awards.

Because Cullen/Frost is a holding company, the rights of Cullen/Frost to participate in any distribution of assets of any subsidiary upon its liquidation or reorganization or otherwise (and thus the ability of Cullen/Frost's shareholders to benefit indirectly from such distribution) would be subject to the prior claims of creditors of that subsidiary, except to the extent that Cullen/Frost itself may be a creditor of that subsidiary with recognized claims. Claims on Cullen/Frost's subsidiaries by creditors other than Cullen/Frost will include substantial obligations with respect to deposit liabilities and purchased funds.

Preferred Stock

The Cullen/Frost board is authorized to divide the preferred stock into series and to fix and determine the relative rights and preferences of the shares of any series and to provide for the issuance of the preferred stock. If and when any Cullen/Frost preferred stock is issued, the holders of Cullen/Frost preferred stock may have a preference over holders of Cullen/Frost common stock in the payment of dividends, upon liquidation of Cullen/Frost, in respect of voting rights and in the redemption of the capital stock of Cullen/Frost.

Common Stock

Dividends. The holders of Cullen/Frost common stock are entitled to share ratably in dividends when and if declared by the Cullen/Frost board from funds legally available for the dividends.

Voting Rights. Each holder of Cullen/Frost common stock has one vote for each share held on matters presented for consideration by the shareholders.

Classification of Board of Directors. The Cullen/Frost board is divided into three classes, each serving three-year terms, so that approximately one-third of the directors of Cullen/Frost are elected at each annual meeting of the shareholders of Cullen/Frost. Classification of the Cullen/Frost board has the effect of decreasing the number of directors that could be elected in a single year by any person who seeks to elect its designees to a majority of the seats on the Cullen/Frost board and thereby could impede a change in control of Cullen/Frost.

Preemptive Rights. The holders of Cullen/Frost common stock have no preemptive rights to acquire any additional shares of Cullen/Frost common stock.

Issuance of Stock. The Cullen/Frost restated articles of incorporation authorize the Cullen/Frost board to authorize the issuance of shares of Cullen/Frost common stock and Cullen/Frost preferred stock and any other securities without shareholder approval. However, Cullen/Frost common stock is listed on the NYSE, which requires shareholder approval of the issuance of additional shares of Cullen/Frost common stock under certain circumstances.

Table of Contents

Liquidation Rights. In the event of liquidation, dissolution or winding-up of Cullen/Frost, whether voluntary or involuntary, the holders of Cullen/Frost common stock will be entitled to share ratably in any of its assets or funds that are available for distribution to its shareholders after the satisfaction of its liabilities (or after adequate provision is made therefor) and after preferences of any outstanding Cullen/Frost preferred stock. Cullen/Frost common stock is neither redeemable nor convertible into another security of Cullen/Frost.

Shareholder Protection Rights Agreement

Cullen/Frost has a shareholder protection rights agreement that could discourage unwanted or hostile takeover attempts that are not approved by Cullen/Frost's board. The rights plan allows holders of Cullen/Frost common stock to purchase shares in either Cullen/Frost or an acquiror at a discount to market value in response to specified takeover events that are not approved in advance by Cullen/Frost's board.

The Rights. On January 26, 1999, Cullen/Frost's board declared a dividend of one preferred stock purchase right for each outstanding share of Cullen/Frost common stock. The rights currently trade with, and are inseparable from, the common stock.

Exercise Price. Each right allows its holder to purchase from Cullen/Frost one one-hundredth of a Cullen/Frost junior participating preferred stock for \$100, subject to certain adjustment. This portion of a preferred share will give the shareholder approximately the same dividend and voting rights as would one share of common stock.

Exercisability. The rights will only become exercisable upon distribution. Distribution of the rights will not occur until 10 days after the earlier of:

a public announcement by Cullen/Frost that a person or group has obtained beneficial ownership of 10% or more of Cullen/Frost's outstanding common stock; or

a person or group begins a tender or exchange offer that, if completed, would result in that person or group becoming the beneficial owner of 10% or more of Cullen/Frost's outstanding common stock.

The date when the rights become exercisable is referred to in the rights plan as the separation time. After that date, the rights will be evidenced by rights certificates that Cullen/Frost will mail to all eligible holders of common stock. A person or member of a group that has obtained beneficial ownership of 10% or more of Cullen/Frost's outstanding common stock may not exercise any rights even after the separation time.

Consequences of a Person or Group Becoming an Acquiring Person. A person or group that acquires beneficial ownership of 10% or more of Cullen/Frost's outstanding common stock is called an acquiring person.

Flip-In. Once Cullen/Frost publicly announces that a person has acquired 10% or more of its outstanding common stock, Cullen/Frost can allow for rights holders, other than the acquiring person, to buy \$200 worth of its common stock for \$100. This is called a flip-in. Alternatively, Cullen/Frost's board may elect to exchange one share of Cullen/Frost common stock for each right, other than rights owned by the acquiring person, thus terminating the rights.

Flip Over. If, after a person or group becomes an acquiring person and controls Cullen/Frost's board of directors, Cullen/Frost merges or consolidates with another entity, or if 50% or more of Cullen/Frost's consolidated assets or earning power are sold, all holders of rights, other than the acquiring person, may purchase shares of the acquiring company at half their market value.

Cullen/Frost's board may elect to redeem all of the rights for \$0.01 per right at any time before a flip-in occurs, thus terminating the rights. If the rights are not terminated at redemption or upon an exchange in connection with a flip-in, the rights will terminate on February 8, 2009.

Table of Contents

The rights will not prevent a takeover of Cullen/Frost. However, the rights may cause a substantial dilution to a person or group that acquires 10% or more of Cullen/Frost common stock unless Cullen/Frost's board first redeems the rights. Nevertheless, the rights should not interfere with a transaction that is in Cullen/Frost's and its shareholders' best interests because the rights can be redeemed by the board before that transaction is completed.

The complete terms of the rights are contained in the shareholder protection rights agreement. The foregoing description of the rights and the shareholder protection rights agreement is qualified in its entirety by reference to the agreement.

Table of Contents

COMPARISON OF SHAREHOLDER RIGHTS

The rights of Cullen/Frost shareholders are governed by the Texas Business Corporation Act, or TBCA, and Cullen/Frost's restated articles of incorporation and amended by-laws. The rights of Horizon shareholders are governed by the Texas Finance Code and, to the extent applicable by the Texas Finance Code, the TBCA, and Horizon's amended and restated articles of association and by-laws. After the merger, the rights of Horizon's and Cullen/Frost's shareholders will be governed by the TBCA and Cullen/Frost's restated articles of incorporation and amended by-laws. The following discussion summarizes the material differences between the rights of Horizon shareholders and the rights of Cullen/Frost shareholders. We urge you to read Cullen/Frost's restated articles of incorporation, Cullen/Frost's amended by-laws, Horizon's amended and restated articles of association, Horizon's by-laws, and the TBCA carefully and in their entirety.

Authorized Capital Stock

Cullen/Frost. Cullen/Frost's restated articles of incorporation authorize it to issue up to 90,000,000 shares of common stock, par value \$0.01 per share, and 10,000,000 shares of preferred stock, par value \$0.01 per share. As of June 30, 2005, there were 52,307,511 shares of Cullen/Frost common stock issued and outstanding and no shares of preferred stock outstanding. See *Description of Cullen/Frost Capital Stock* on page 60. As of June 30, 2005, 250,000 shares of Cullen/Frost preferred stock designated as Junior Participating Preferred Stock were reserved for issuance upon the exercise of certain rights described below under *Shareholder Protection Rights Agreement*.

Horizon. The authorized capital stock of Horizon consists of 1,800,000 shares of common stock, par value \$5.00 per share, and 200,000 shares of preferred stock, no par value per share. As of March 31, 2005, there were 827,366 shares of Horizon common stock issued and outstanding, and no shares of Horizon preferred stock were outstanding.

Size of Board of Directors

Cullen/Frost. Cullen/Frost's amended by-laws provide for the number of directors to consist of one or more members as determined from time to time by the Cullen/Frost board. The Cullen/Frost board currently has 17 directors.

Horizon. Horizon's amended and restated articles of association provide for Horizon's board to consist of not less than 5 nor more than 25 directors, a majority of whom must be Texas residents. The exact number is fixed by Horizon's board from time to time. Pursuant to an adopted resolution, the number of directors of Horizon is currently fixed at 13.

Classes of Directors

Cullen/Frost. Cullen/Frost's restated articles of incorporation provide that Cullen/Frost's board is divided into three classes of directors as nearly equal in number as possible, with each class being elected to a staggered three-year term. Accordingly, control of the board of directors of Cullen/Frost cannot be changed in one year; at least two annual meetings must be held before a majority of the board of directors may be changed. Holders of shares of Cullen/Frost common stock do not have the right to cumulate their votes in the election of directors.

Horizon. Horizon's board is not classified and each director is elected annually. Holders of shares of Horizon common stock do not have the right to cumulate their votes in the election of directors.

Removal of Directors

Cullen/Frost. Any Cullen/Frost director or Cullen/Frost's entire board of directors may be removed only for cause and only by the affirmative vote of the holders of two-thirds of the shares then entitled to vote in the election of directors.

Table of Contents

Horizon. Any Horizon director or Horizon's entire board of directors may be removed by shareholders only for cause and only by a majority vote of the shares then entitled to vote at an election of directors.

Filling Vacancies on the Board of Directors

Cullen/Frost. Under Cullen/Frost's amended by-laws, any vacancy occurring in Cullen/Frost's board shall be filled by a majority of the remaining directors or by election at an annual or special meeting of shareholders called for such purpose.

Horizon. Any vacancies on Horizon's board of directors may be filled only by a majority vote of the remaining directors. The new director will serve for the remainder of the unexpired term of the director to which the director has been appointed.

Nomination of Director Candidates by Shareholders

Cullen/Frost. Cullen/Frost's amended by-laws establish procedures that shareholders must follow to nominate persons for election to Cullen/Frost's board. The shareholder making the nomination must deliver written notice to Cullen/Frost's Secretary between 60 and 90 days before the annual meeting at which directors will be elected. However, if less than 70-days' notice is given of the meeting date, that written notice by the shareholder must be delivered by the tenth day after the day on which the meeting date notice was given. Notice will be deemed to have been given more than 70 days prior to the meeting if Cullen/Frost previously disclosed that the meeting in each year is to be held on a specific date.

The nomination notice must set forth certain information about the person to be nominated similar to information required for disclosure in proxy solicitations for director election pursuant to Exchange Act Regulation 14A, and must also include the nominee's written consent to being nominated and to serving as a director if elected. The nomination notice must also set forth certain information about the person submitting the notice, including the shareholder's name and address and the class and number of Cullen/Frost shares that the shareholder owns of record or beneficially. The meeting chairman may, if the facts warrant, determine that a nomination was not made in accordance with Cullen/Frost's amended by-law provisions, and the defective nomination will be disregarded.

Horizon. Neither Horizon's amended and restated articles of association nor its by-laws contain provisions regarding the nomination of directors.

Calling Special Meetings of Shareholders

Cullen/Frost. A special meeting of shareholders may be called at any time by the holders of at least 10% of Cullen/Frost's outstanding stock entitled to be voted at such meeting, by Cullen/Frost's board, by Cullen/Frost's Senior Chairman or Chairman of the board or by Cullen/Frost's President.

Horizon. A special meeting of shareholders may be called at any time and for any lawful purpose by a majority of Horizon's full board of directors, by Horizon's Chairman of the board, by Horizon's President or by shareholders owning a majority in interest of the outstanding stock entitled to be voted at such meeting.

Shareholder Proposals

Cullen/Frost. Cullen/Frost's amended by-laws establish procedures that a shareholder must follow to submit a proposal for a Cullen/Frost shareholder vote at an annual shareholders' meeting. The shareholder making the proposal must deliver written notice to Cullen/Frost's Secretary between 60 and 90 days prior to the meeting. However, if less than 70 days' notice of the meeting is given, that written notice by the shareholder must be so delivered not later than the tenth day after the day on which such meeting date notice was given. Notice will be deemed to have been given more than 70 days prior to the meeting if Cullen/Frost previously disclosed that the meeting in each year is to be held on a specific date. The shareholder proposal notice must set forth the following:

the text of the proposal to be presented;

Table of Contents

a brief description of the reasons for its submission;

the name and address of the shareholder;

the classes and number of Cullen/Frost shares the shareholder beneficially owns; and

any material interest of the shareholder in that proposal other than the holder's interest as a Cullen/Frost shareholder.

The meeting chairman may, if the facts warrant, determine that any proposal was not properly submitted in accordance with Cullen/Frost's amended by-laws, and the defective proposal will not be submitted to the meeting for a shareholder vote.

Horizon. Neither Horizon's amended and restated articles of association nor its by-laws contain provisions relating to shareholder proposals.

Notice of Shareholder Meetings

Cullen/Frost. Cullen/Frost's amended by-laws provide that Cullen/Frost must notify shareholders between 10 and 60 days before any annual meeting and between 50 and 60 days before any special meeting of the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Horizon. Horizon's by-laws provide that Horizon must notify shareholders between 10 and 60 days before any annual or special meeting of the date, time, place and hour of the meeting and, in the case of a special meeting, the purpose or purposes thereof.

Anti-Takeover Provisions and Shareholder Protection Rights Agreement

Cullen/Frost. Articles 13.01 through 13.08 of the TBCA provide that a Texas corporation may not engage in certain business combinations, including mergers, consolidations and asset sales, with a person, or an affiliate or associate of such person, who is an affiliated shareholder (generally defined as the holder of 20% or more of the corporation's voting shares) for a period of three years from the date such person became an affiliated shareholder unless:

the business combination or purchase or acquisition of shares made by the affiliate shareholder was approved by the board of directors of the corporation before the affiliated shareholder became an affiliated shareholder, or

the business combination was approved by the affirmative vote of the holders of at least two-thirds of the outstanding voting shares of the corporation not beneficially owned by the affiliated shareholder, at a meeting of shareholders called for that purpose (and not by written consent), not less than six months after the affiliated shareholder became an affiliated shareholder.

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A Texas corporation may elect not to be governed by the Texas Business Combination Law. Cullen/Frost has not made such an election.

Cullen/Frost has a shareholder protection rights agreement, which will be in effect for the combined company after the merger. This plan is described above in the section entitled "Shareholder Protection Rights Agreement" beginning on page 61.

Horizon. Horizon is also subject to the Texas Business Combination Law and has not made an election not to be so governed. Horizon does not have a shareholder protection rights agreement.

Table of Contents

Indemnification of Directors and Officers

Cullen/Frost. The TBCA provides that a corporation may indemnify a director or officer who was, is or is threatened to be a named defendant or respondent in a proceeding because the person is or was a director or officer if such person:

conducted himself in good faith;

reasonably believed:

in the case of conduct in his official capacity as a director or officer, that his conduct was in the corporation's best interests; and

in all other cases, that his conduct was at least not opposed to the corporation's best interests; and

in the case of any criminal proceeding, had no reasonable cause to believe his conduct was unlawful.

The TBCA also provides that a corporation must indemnify a director or officer against reasonable expenses incurred by him or her in connection with a proceeding in which such person is a named defendant or respondent because he or she is or was a director or officer if he or she has been wholly successful, on the merits or otherwise, in the defense of the proceeding. Certain other individuals serving at the request of the corporation may also be indemnified under Texas law.

Cullen/Frost's amended articles of incorporation provide for mandatory indemnification to the fullest extent allowed by Texas law.

Horizon. Horizon's amended and restated articles of association also provide for mandatory indemnification to the fullest extent allowed by Texas law.

Amendments to Articles/Certificate of Incorporation and By-Laws

Cullen/Frost. The TBCA provides that a corporation's articles of incorporation may be amended only if the proposed amendment is approved by the corporation's board of directors and thereafter approved by two-thirds of the outstanding shares entitled to vote thereon.

Cullen/Frost's amended by-laws may be altered, amended, or repealed and new by-laws may be adopted by a vote of a majority of the number of directors as fixed in accordance by its amended by-laws or by a vote of the holders of three-quarters of Cullen/Frost's outstanding shares entitled to vote thereon.

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Horizon. Horizon's amended and restated articles of association may only be amended pursuant to the requirements of the Texas Finance Code and, to the extent applicable by the Texas Finance Code, the TBCA discussed above.

The power to alter, amend or repeal Horizon's by-laws or to adopt new by-laws from time to time is vested in Horizon's board. Under the TBCA, Horizon's shareholders may rescind an action by the board with regard to the by-laws at a meeting at which the amendment of by-laws is permitted.

Table of Contents

VALIDITY OF SECURITIES

The validity of the Cullen/Frost common stock to be issued in connection with the merger has been passed upon for Cullen/Frost by Stan McCormick, Executive Vice President and Corporate Counsel of Cullen/Frost.

EXPERTS

The consolidated financial statements of Cullen/Frost Bankers, Inc. appearing in Cullen/Frost Bankers, Inc. Annual Report (Form 10-K) for the year ended December 31, 2004, and Cullen/Frost Bankers, Inc. management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 included therein, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements and management's assessment are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

OTHER MATTERS

As of the date of this proxy statement-prospectus, Horizon's board knows of no matters that will be presented for consideration at the special meeting other than as described in this proxy statement-prospectus. Horizon shareholders may, however, be asked to vote on a proposal to adjourn or postpone the special meeting. Horizon could use any adjournment or postponement of the special meeting for the purpose, among others, of allowing more time to solicit votes to approve the merger agreement, the plan of merger and the merger. If any other matters properly come before the Horizon special meeting, or any adjournments or postponements of that meeting, and are voted upon, the enclosed proxies will be deemed to confer discretionary authority on the individuals that they name as proxies to vote the shares represented by these proxies as to any of these matters. The individuals named as proxies intend to vote or not to vote in accordance with the recommendation of the management of Horizon. However, proxies that indicate a vote against approval of the merger agreement, the plan of merger and the merger will not be voted in favor of any adjournment or postponement of the special meeting to solicit additional proxies to approve these items.

WHERE YOU CAN FIND MORE INFORMATION

Cullen/Frost has filed a registration statement with the SEC under the Securities Act that registers the distribution to Horizon shareholders of the shares of Cullen/Frost common stock to be issued in the merger. The registration statement, including the attached exhibits and schedules, contains additional relevant information about Cullen/Frost and its common stock and the combined company. The rules and regulations of the SEC allow us to omit some information included in the registration statement from this document.

In addition, Cullen/Frost (File No. 0-7275) files reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy this information at the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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Horizon is not subject to the reporting and informational requirements of the Exchange Act and does not file reports or other information with the SEC.

The SEC also maintains an Internet world wide web site that contains reports, proxy statements and other information about issuers, like Cullen/Frost, that file electronically with the SEC. The address of that site is <http://www.sec.gov>. Cullen/Frost's address on the world wide web is <http://www.frostbank.com>, and Horizon's address is <http://www.go2horizon.com>. The information on our web sites is not a part of this document.

Table of Contents

You can also inspect reports, proxy statements and other information about Cullen/Frost at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

The SEC allows Cullen/Frost to incorporate by reference information into this document. This means that Cullen/Frost can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this document, except for any information that is superseded by information that is included directly in this document.

This document incorporates by reference the documents listed below that Cullen/Frost has previously filed with the SEC (other than the portions of those documents not deemed to be filed). They contain important information about Cullen/Frost and its financial condition.

<u>FILINGS</u>	<u>PERIOD OR DATE FILED</u>
Annual Report on Form 10-K	Year ended December 31, 2004
Proxy Statement on Schedule 14A	April 18, 2005
Quarterly Reports on Form 10-Q	Quarter ended June 30, 2005
Current Reports on Form 8-K	May 18, 2005; April 22, 2005
The description of Cullen/Frost common stock set forth in Cullen/Frost's registration statement on Form 8-A filed pursuant to Section 12 of the Exchange Act, and any amendment or report filed for the purpose of updating any such description.	July 30, 1997
The description of preferred share purchase rights set forth in Cullen/Frost's registration statement on Form 8-A filed pursuant to Section 12 of the Exchange Act, and any amendments or reports filed for the purpose of updating any such description.	February 1, 1999

Cullen/Frost incorporates by reference additional documents that it may file with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this document and the date of Horizon's special meeting (other than the portions of those documents not deemed to be filed). These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

Cullen/Frost has supplied all information contained or incorporated by reference in this document relating to Cullen/Frost and Horizon has supplied all such information relating to Horizon.

You can obtain any of the documents incorporated by reference in this document through Cullen/Frost or from the SEC through the SEC's Internet world wide web site at the address described above. Documents incorporated by reference are available from Cullen/Frost without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this document. You can obtain documents incorporated by reference in this document by requesting them in writing or by telephone from Cullen/Frost at the following address:

Cullen/Frost Bankers, Inc.

Attention: Investor Relations

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100 West Houston Street

San Antonio, Texas 78205

(210) 220-4011

If you would like to request documents, please do so by August 23, 2005, to receive them before the special meeting. If you request any incorporated documents from Cullen/Frost, Cullen/Frost will mail them to you by first-class mail, or another equally prompt means, within one business day after it receives your request.

Table of Contents

We have not authorized anyone to give any information or make any representation about the merger or our companies that is different from, or in addition to, that contained in this document or in any of the materials that Cullen/Frost has incorporated into this document. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this document or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies.

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain statements contained in this registration statement that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act), notwithstanding that such statements are not specifically identified. In addition, certain statements may be contained in the future filings of Cullen/Frost with the Commission, in registration statements, and in oral and written statements made by or with the approval of Cullen/Frost or Horizon that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to:

statements about the benefits of the merger between Cullen/Frost and Horizon, including future financial and operating results, cost savings, enhanced revenues and accretion to reported earnings that may be realized from the merger;

statements of plans, objectives and expectations of Cullen/Frost or Horizon or their managements or boards of directors;

statements of future economic performance; and

statements of assumptions underlying such statements.

Words such as believes, anticipates, expects, intends, targeted, continue, remain, will, should, may and other similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

the risk that the businesses of Cullen/Frost and Horizon will not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected;

expected revenue synergies and cost savings from the merger may not be fully realized or realized within the expected time frame;

revenues following the merger may be lower than expected;

deposit attrition, operating costs, customer loss and business disruption following the merger, including, without limitation, difficulties in maintaining relationships with employees, may be greater than expected;

the ability to obtain governmental approvals of the merger on the proposed terms and schedule;

the failure of Horizon's shareholders to approve the merger;

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local, regional, national and international economic conditions and the impact they may have on Cullen/Frost and Horizon and their customers and Cullen/Frost's and Horizon's assessment of that impact;

changes in the level of non-performing assets and charge-offs;

changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;

inflation, interest rate, securities market and monetary fluctuations;

changes in the competitive environment among financial holding companies and banks; and

changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which Cullen/Frost and Horizon must comply.

Table of Contents

Additional factors that could cause Cullen/Frost's results to differ materially from those described in the forward-looking statements can be found in Cullen/Frost's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Commission. All subsequent written and oral forward-looking statements concerning the proposed transaction or other matters and attributable to Cullen/Frost or Horizon or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements referenced above. Forward-looking statements speak only as of the date on which such statements are made. Cullen/Frost and Horizon undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

Table of Contents

APPENDIX A

AGREEMENT AND PLAN OF MERGER

between

HORIZON CAPITAL BANK

and

CULLEN/FROST BANKERS, INC.

Dated April 19, 2005

Table of Contents

Table of Contents

	Page
<u>ARTICLE 1</u>	
<u>DEFINITIONS; INTERPRETATION; DISCLOSURE SCHEDULES</u>	
1.1 <u>Definitions</u>	A-1
1.2 <u>Interpretation</u>	A-8
1.3 <u>Disclosure Schedules</u>	A-9
<u>ARTICLE 2</u>	
<u>FORMATION OF INTERIM BANK SUB; THE MERGER</u>	
2.1 <u>Formation of Interim Bank Sub; Entry into Plan of Merger</u>	A-9
2.2 <u>The Merger</u>	A-9
2.3 <u>Closing</u>	A-9
2.4 <u>Effects of the Merger; Liabilities of the Bank</u>	A-9
2.5 <u>Name of Surviving Bank</u>	A-9
2.6 <u>Articles of Association and Bylaws of the Surviving Bank</u>	A-9
2.7 <u>The Contribution and the Second Merger</u>	A-9
<u>ARTICLE 3</u>	
<u>EFFECT ON STOCK; ELECTION PROCEDURES</u>	
3.1 <u>Effect on Stock</u>	A-10
3.2 <u>Elections; Allocation</u>	A-10
3.3 <u>Exchange Agent; Election Procedures</u>	A-11
3.4 <u>Fractional Shares</u>	A-13